

# Oil and Gas News Briefs

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#### **Despite high profits, U.S. oil production flat**

(Wall Street Journal; Nov. 6) - Despite an extended streak of strong profits, U.S. shale companies are slowing their oil field activity, keeping oil production roughly flat and offering little relief for tight global markets. What was expected to be a banner year for U.S. oil production has failed to materialize as creeping inflation-related costs, supply-chain snarls and disappointing well performance for some companies have coalesced to limit domestic output, executives and analysts said.

Companies like ConocoPhillips, Pioneer Natural Resources and Devon Energy are focused on profits instead of drilling and say their growth is constrained. Many of the companies lowered projections for oil production as they reported strong profits. Pioneer said its wells in the Permian Basin of West Texas and New Mexico — the most active U.S. oil field — produced less oil than expected this year and that it was reshuffling its portfolio to generate higher returns in 2023. The company produced 352,421 barrels of oil a day in the third quarter, a slight decline from the previous quarter, it said.

ConocoPhillips spokesman Dennis Nuss said U.S. oil output growth is coming in lower than the company anticipated for this year because of supply-chain bottlenecks and labor shortages. “Rapidly escalating costs combined with extremely tight supply are limiting the pace of industrywide production growth,” said CEO Ryan Lance. The shale boom that upset the world’s oil hegemony is losing steam just as global markets need the once fast-acting producers to pump more to keep up with a recovery in demand. In the contiguous U.S., oil output through August has increased only 3% since December.

#### **U.S. scales back forecast for oil production in 2023**

(Bloomberg; Nov. 8) - The U.S. has slashed its forecast for 2023 oil production in the latest sign that world crude markets can’t rely on American shale fields to ramp up supply quickly enough to reduce high energy prices over the next year. Production is now estimated to hit 12.31 million barrels a day in 2023, just under the record year of 2019, according to a monthly report from the Energy Information Administration released Nov. 8, a fifth-straight downward revision by the government agency.

The projection suggests the pace of U.S. shale growth, one of the few sources of major new supply in recent years, is slowing despite oil prices hovering at around \$90 a barrel, about double most domestic producers’ breakeven costs. If the trend continues, it would deprive the global market of additional barrels to help make up for OPEC+ production cuts and disruption to Russian crude supplies amid its invasion of Ukraine.

The previous boom in U.S. production fostered an era of relatively cheap energy costs. It added more crude to markets than the entire production of Iraq and Iran combined from 2012 to 2020, transforming the country into the biggest producer of oil and gas. But the rebound in U.S. production following the initial onslaught of COVID-19 has been lackluster. The EIA said this year's output is still about 10% below February 2020.

U.S. shale producers have cited rising costs as one reason for slow growth. Rocketing inflation for oil field items such as pipes, steel casing and frack sand is weighing on producers. But the biggest factor behind the slowdown in growth is shale companies' commitment to profits over production, a major reversal from the preceding decade.

### **India reaffirms it will buy Russian oil at 'advantageous' terms**

(Al Jazeera; Nov. 8) - India will continue buying Russian oil as it is advantageous for the country, Foreign Minister Subrahmanyam Jaishankar said during his first visit to Russia since it invaded Ukraine. The move is counter to Western efforts to cripple Russia's economy with sanctions. Jaishankar met his Russian counterpart Sergey Lavrov in Moscow on Nov. 8, accompanied by senior officials in charge of agriculture, oil and gas, ports and shipping, finance, chemicals and fertilizer and trade.

"Russia has been a steady and time-tested partner. Any objective evaluation of our relationship over many decades would confirm that it has actually served both our countries very, very well," Jaishankar said in a joint news conference. "As the world's third-largest consumer of oil and gas, a consumer where the levels of income are not very high, it is our fundamental obligation to ensure that the Indian consumer has the best possible access on the most advantageous terms to international markets."

"We have seen that the India-Russia relationship has worked to advantage. If it works to my advantage, I would like to keep that going," the Indian foreign minister added. India, which has not explicitly condemned Russia's war on Ukraine, has emerged as Russia's largest oil customer after China following a boycott by Western buyers. Both New Delhi and Beijing have so far refused to join Western sanctions against Russia.

### **Additional sanctions on Russian crude, refined fuels start next month**

(Wall Street Journal; Nov. 7) – New sanctions on Russia will redraw global oil flows over the next three months, but confusion over how the measures will work is making it hard for the energy industry to prepare. Ukraine's allies are gearing up to hit Russian oil with the toughest restrictions to date starting in early December, an attempt to stem President Vladimir Putin's influx of fossil-fuel revenue.

Negotiations inside the Biden administration and with its overseas partners are going down to the wire, creating uncertainty for traders, refiners and others in the energy market. Adding to the angst, Moscow has threatened to hit back by choking off supplies. Crude prices have risen since mid-October and would likely zoom higher if Putin follows through on that warning, traders say. Another risk is that Russia's oil-export logistics will struggle to adjust to the sanctions, taking crude off the market.

But the real impact, traders say, are the eye-watering prices that Europeans are paying for diesel. The diesel market is particularly susceptible to the loss of Russian supplies because Europe has long relied on Russian refiners for the agricultural, industrial and trucking fuel. Making it worse, stockpiles are running low after strikes at French refiners.

Three deadlines loom over the oil market. On Dec. 5, the European Union will ban most imports of Russian crude, and bar companies from insuring and financing Russian oil anywhere in the world. On the same day, a U.S.-led price cap on Russian oil is due to kick in, allowing companies to facilitate Russian oil shipments if the crude doesn't trade above a yet-to-be-determined price. Then on Feb. 5, the EU is expected to impose the same restrictions on Russian refined fuels such as diesel and gasoline.

### [UAE could become a buyer of discounted Russian crude](#)

(Bloomberg; Nov. 7) - An oil tanker hauling a cargo of Russian crude has been sitting off the coast of the United Arab Emirates for three days, raising the prospect that the gulf state might become customer for discounted Russian oil. Having first moored at a jetty serving the country's biggest refinery, the Tahiti, a tanker able to transport 1 million barrels of oil, has been anchored a short distance from a terminal at the UAE port of Ruwais. It left Murmansk, a port in Russia's part of the Arctic Sea, in early October.

Russia urgently needs to find new customers for its crude because, starting Dec. 5, almost all seaborne deliveries into Europe will be banned, or least restricted in price. The 27-nation European Union is prohibiting imports to punish Russia for its war in Ukraine. The Tahiti arrived at a jetty serving ADNOC's refinery in Abu Dhabi on Nov. 2, spending about 36 hours moored there before leaving again.

The signals from the vessel don't suggest it unloaded. The vessel had previously been signaling its destination as Jamnagar in India, according to ship tracking data monitored by Bloomberg. Russia has been struggling to find new markets for its crude shunned by European buyers. Moscow may need to find outlets for about 1.5 million barrels a day when the EU's sanctions begin next month. Importing and processing Russian crude at Ruwais, if it happened, could free up domestic UAE crude for export and could prove profitable if purchases of Russian crude are made at deep discounts.

## **Russia sends ice-breaking oil tanker to try northern route to China**

(Markets Insider; Nov. 8) - Russia is sending an ice-breaking tanker of oil to China via the Arctic Circle, only the second time it has explored a route that promises to get crude to Asian buyers more rapidly. The ship, the Vasily Dinkov, took on a small cargo of oil from a storage vessel in Murmansk in late October, according to Bloomberg data. It's now making the arduous 3,300-mile journey through typically iceberg-laden seas to the Chinese port of Rizhao, where it's scheduled to dock on Nov. 17.

The voyage is the shortest ocean route between Europe and East Asia, taking half the time to reach China from Russia's Baltic ports than the standard passage through the Suez Canal. That route could turn out to be vital come the warmer summer weather, Viktor Katona, a lead analyst at research firm Kpler, told Bloomberg. "Europe is already sealed off," he said, referring to importers on the continent shunning Russia's energy supplies due to the Ukraine war. "If they're not buying, why circumnavigate the entire universe if you can use the Northern Sea Route to get to China in 20 days?" he said.

The European Union plans to bring in a ban on seaborne imports of Russian crude on Dec. 5, meaning the EU market will effectively vanish for Moscow. Its oil shipments to the region have already plunged 60% since its invasion of Ukraine. The measure will bar EU tankers from transporting Russian oil — meaning deliveries to alternative buyers in India, for example, will take 10 times as long. Like India, China has been snapping up Russian crude at a discount as Moscow seeks alternative buyers to European sales.

## **New England braces for expensive winter of oil, diesel, natural gas**

(Bloomberg; Nov. 7) - In the most densely populated corner of the U.S., the signs of a winter energy crisis are already multiplying. Heating oil delivered to New York is the priciest ever. Retailers in Connecticut are rationing it to prevent panic buying. New England's stockpiles of diesel and heating oil — the same product, taxed differently — are a third of normal levels. Natural gas inventories are also below average.

Add some cold to the mix, and in the best-case scenario Northeast consumers will shoulder the highest energy bills in decades. The Biden administration, under pressure to tame prices, is considering ways to stash more diesel and gasoline in New England. In the worst-case scenario, a cluster of states with a combined economy bigger than Japan's will run out of fuel to keep the lights on and heat homes and businesses.

The Northeast is no stranger to fuel constraints. Its dearth of pipelines and refineries means the Texas and Pennsylvania shale fields might as well be on the other side of the world. But now, a global supply crunch intensified by the war in Ukraine is putting the region at risk of an energy disaster. The Northeast will compete with buyers across the Atlantic and around the world for fuel to generate power and keep the cold at bay.

At the heart of the squeeze is natural gas. That's because New England and Mid-Atlantic are more reliant on gas than ever. Coal-fired power plants have shut in droves, falling victim to environmental concerns and competition from cheap gas. Wind turbines and solar farms haven't sprouted up quickly enough. And strong opposition has scuttled plans for pipelines to bring all that shale gas eastward.

## **Europe paying more than ever for electricity and natural gas**

(Bloomberg; Nov. 7) - European households are paying more than ever for their electricity and natural gas, even as governments spend billions to shield consumers from the energy crisis. The average retail gas price across the European Union and Britain was double in October what it was in the same month last year, according to energy consultancy VaasaETT. Household electricity costs have soared 67% to 36 euro cents (\$0.36) per kilowatt-hour.

The increases come as EU governments have pledged more than 550 billion euros to protect citizens and businesses from soaring energy costs the past year. Without that support, it's likely household bills would have been even higher, said Philip Lewis, CEO of the Helsinki-based consultancy. The biggest monthly gains were in Dublin, where power rates climbed 44%, while the average natural gas price in Rome soared by 97%.

"If we were essentially to have the crisis more or less lasting for another whole year, or more than a year, the cost of those measures for these governments is going to be enormous," Lewis said in an interview. "Eventually, customers will forget that those prices are not real prices — they will take them as the norm and then it becomes essentially impossible to remove them."

## **Europe not as successful at cutting natural gas consumption**

(Reuters; Nov. 4) - Europe's natural gas inventories continue to swell as the region prepares for winter and a possible interruption of pipeline supplies from Russia, with stocks comfortably exceeding targets set by governments. But the region has made less progress cutting consumption, which could still leave it short of supplies in the event of an extended cold spell and a halt to Russian deliveries.

Inventories in the European Union and the U.K. climbed to about 16% above the prior 10-year seasonal average on Nov. 2. Inventory accumulation since the start of April has been the fastest on record and stockpiles have continued rising much later into the autumn than normal. Inventories are at the second-highest level on record for the time of year and set to increase further, according to data from Gas Infrastructure Europe.

Progress toward the second part of the gas security package agreed by EU officials, cutting consumption by 15% this winter, has been less impressive. Germany, Italy, France, the Netherlands, Spain, Belgium and Poland account for 80% of the EU's gas consumption. Their combined use was 13% to 14% below the prior five-year average in August and September. But that was the result of industrial closures and unusually mild temperatures which delayed the onset of heating demand. The real test lies ahead as temperatures fall: Consumption during January is two and a half times higher than July.

### **Poorer nations cannot afford to match Europe's price for natural gas**

(Bloomberg; Nov. 7) - Bills will be high, but Europe will survive the winter: It's bought enough oil and gas to get through the heating seasons. Much deeper costs, however, will be borne by the world's poorest countries, which have been shut out of the natural gas market by Europe's ravenous demand. It's left emerging market countries unable to meet today's needs or tomorrow's, and the most likely consequences — factory shutdowns, more frequent and longer-lasting power shortages, the foment of social unrest — could stretch into the next decade.

“Energy security concerns in Europe are driving energy poverty in the emerging world,” said Saul Kavonic, an energy analyst at Credit Suisse. “Europe is sucking gas away from other countries, whatever the cost.” After a summer of rolling blackouts and political turmoil, cooler weather and heavy rains have alleviated the immediate energy crisis in Pakistan, India, Bangladesh and the Philippines. But any relief promises to be temporary. Colder temperatures are on the way — parts of South Asia can be more bitter than London — and the chances of securing long-term gas supplies are slim.

The strong U.S. dollar has only complicated the situation, forcing nations to choose between buying fuel and repaying debt. Under the circumstances, fuel suppliers are increasingly wary of selling to countries that could be heading for default. For the first time, emerging nations like Pakistan, Bangladesh and Thailand are forced to compete on price with Germany and other economies several times their size. “We are borrowing other people's energy supplies,” said Vitol CEO Russell Hardy. “It's not a great thing.”

### **Sempra expects to start up Baja Mexico LNG export plant in 2025**

(Natural Gas Intelligence; Nov. 7) - Construction of the first phase of Sempra's Energia Costa Azul LNG export project in Baja California, Mexico, is progressing, but could be several months behind schedule because of delays, according to management of the parent company. “We recently began erecting the first structural steel onsite,” Sempra Infrastructure CEO Justin Bird said during Sempra's third-quarter 2022 earnings call. “Overall construction is slightly behind our original plan, but the project is on budget and we continue to expect to commence commercial operations in the middle of 2025.”



While construction proceeds at the project, designed to liquefy and ship 3 million tonnes per year of LNG, management said the substantial pipeline capacity the company would eventually use to transport gas from the Permian Basin to the LNG plant is allowing it to “optimize” its business in Mexico and capture widening price spreads between lower-cost gas from West Texas and the U.S. Henry Hub benchmark.

Meanwhile, a proposed second phase at Costa Azul, with capacity of roughly 12 million tonnes per year, is still under development. Sempra Infrastructure has entered into non-binding agreements with Mitsui, TotalEnergies and ConocoPhillips that sets the framework for their potential offtake of LNG from the plant and potential acquisition of equity stakes in the second phase.

### **Cheniere wants more time to meet emissions standards at LNG plant**

(Reuters; Nov. 8) - Top U.S. LNG exporter Cheniere Energy is asking Louisiana regulators for 18 months to upgrade nearly half of its liquefaction plant turbines. The turbines exceed new air pollution limits. The request reveals a potential snag as U.S. LNG producers try to ramp up exports to meet booming global demand. The federal government this year denied Cheniere a waiver from rules limiting emissions of possible carcinogens, even though the company argued that it could reduce U.S. gas to Europe.

The turbines, which mostly compress and cool natural gas into a liquid, exceeded formaldehyde limits under the National Emissions Standards for Hazardous Air Pollutants, according to testing data. Cheniere is one of only two LNG providers with turbines subject to the rule, according to U.S. Environmental Protection Agency data.

Maas Hinz, Cheniere's general manager at its Sabine Pass plant, wrote that 21 of the facility's 44 turbines had exceeded the emissions limits in preliminary tests, according to an Oct. 12 letter to the Louisiana Department of Environmental Quality's enforcement division. He asked the state for 18 months to make changes and retest the turbines.

Cheniere has proposed a two-phase approach: The first would last 90 days and involve retesting after the replacement of some combustion and metering components. A second phase would require "a longer-term engineering and operational analysis process," Cheniere said, that could result in replacing turbines with a different technology. Cheniere expects the work to be completed by April 2024, the letter said.

### **Tanzania energy minister says LNG agreement coming next month**

(Bloomberg; Nov. 7) - Tanzania will sign key agreements with oil majors including Equinor and Shell next month to pave the way for a planned \$40 billion liquefied natural gas export project, according to Energy Minister January Makamba. “It’s happening,”

Makamba said in an interview in Sharm el-Sheikh, Egypt, where he is attending the COP27 international climate summit. “In December, we will conclude the conversation. We are in the fiscal package discussions now.”

The project, delayed by years of prolonged negotiations, has gained urgency as European countries look for LNG projects that can be long-term replacements for energy supplies from Russia. The Tanzania accords will include the final host-government agreement which spells out terms of the project, the project law and the benefit-sharing agreement, Makamba said. A final investment decision could be reached in January 2025, allowing exports to start before 2030, he said.

Gas would be delivered from three offshore blocks to an onshore plant with capacity to produce 15 million tonnes a year of LNG. The other companies involved are ExxonMobil and Singapore-based Pavilion Energy. Tanzania and other African countries, including Mozambique and Nigeria, are seeking to ramp up gas output at the same time as the world is trying to limit the use of fossil fuels that cause global warming. African leaders have argued for developing their resources to increase energy supply on a continent with the least amount of power generation and to boost their economies.

### **[Drought forces Spain to shut down fifth-largest hydropower plant](#)**

(Bloomberg; Nov. 7) - Spanish utility Endesa is set to shut down output at the country's fifth-largest hydropower plant after drought-like conditions caused reservoir levels to fall below the minimum needed to keep it running. The Mequinenza facility, located in the northeastern region of Aragon, will stop operating in mid-November after water levels subsided to below 23% of capacity, the company said in a statement. It will be the first time the plant has stopped functioning since it was opened in 1966.

Mild temperatures are delaying the need for heating, prompting a decline in European natural gas prices and giving the continent some respite from an unprecedented energy crisis. But in Spain, that weather has resulted in fall being drier than usual, according to national meteorological agency Aemet. In October, Spain's water reservoirs overall hit the lowest level since 1995, according to Bloomberg calculations based on Environmental Transition Ministry data.

That has led to a steep decline in Spain's hydropower generation, which plunged 53% in the year through October, according to grid operator Red Electrica Corporacion. That drop, along with reduced output from other renewables such as wind, has boosted generation using polluting fuels. Output from gas-fired combined-cycle plants rose by 41% over the same period. If the drought-like conditions persist, the decision to halt production could extend to hydro plants in the neighboring region of Catalonia.



## **Philadelphia shipyard will build dual-fuel container ships for Matson**

(WorkBoat.com; Nov. 7) - U.S. Pacific shipper Matson Navigation, a subsidiary of Matson, has signed contracts with Philly Shipyard to build three new Aloha Class container ships, for a total price tag of \$1 billion. Each will be capable of moving 3,600 20-foot containers. Matson, based in Honolulu, expects the first vessel to be delivered in the fourth quarter of 2026, with subsequent deliveries in 2027. The three vessels will join two Aloha Class ships that the Philly Shipyard delivered in 2018 and 2019.

Like their sister ships Daniel K. Inouye and Kaimana Hila, the new 854-foot vessels will be equipped with dual-fuel engines that are designed to operate on either conventional marine fuels or liquefied natural gas. The earlier ships require some modification to operate with LNG, but the new ships will be delivered LNG-ready. The design also features other "green ship technology" features, such as a fuel-efficient hull design and environmentally safe double-hull fuel tanks and freshwater ballast systems.

The Aloha Class vessels are the largest container ships ever built in the U.S. and are designed to operate at speeds in excess of 23 knots. The Philadelphia shipyard is a leading U.S. builder of vessels for the domestic Jones Act trade. The three new Aloha Class ships will replace three vessels currently deployed in Matson's China-Long Beach Express service. Those vessels will in turn replace three older vessels currently deployed in Matson's Alaska service, bringing larger and faster vessels into that lane.