Oil and Gas News Briefs
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Diesel prices have climbed higher than gasoline amid tight supply

(The Wall Street Journal; Nov. 16) - Dwindling stockpiles of diesel have driven prices to a record premium over gasoline and crude oil, showing how war, weather and other disruptions to globalized energy markets are still producing price shocks and potential shortages. While the average U.S. price of gasoline is up about 14% this year, diesel has climbed about 50%, to $5.36 a gallon, according to AAA/Opis. The gains widened the gap between the two to an all-time high of $1.60. A year ago, it was 23 cents.

The U.S. Energy Information Administration reported the country had only 25 days of diesel in reserve, the lowest since 2008. Diesel, like gasoline, is refined from crude and is the fuel of choice for most of engines in farm and manufacturing equipment, as well as the trucks and trains. Its refining costs often vary with the price of the natural gas used in the process — one of the largest components in the cost of production.

A major driver of the tight supply is the war in Ukraine. Russia's exports of diesel have been more interrupted than those of its crude. The country's curtailment of natural gas flows to Europe has also lifted refining costs there, while pushing users such as power plants to switch from natural gas to diesel. But the war only amplified an problem. Last year's severe weather had already lifted natural gas prices and suppressed diesel supplies. The diesel deficit isn't expected to last, but winter brings additional risk because diesel is interchangeable with heating oil, particularly in the U.S. Northeast.

More global supply is on the way. U.S. Gulf Coast refiners are scaling up production as they exit a maintenance season that contributed to October's declining inventories. French refiners have been coming back, while a new refinery in Kuwait is ramping up.

More Russian crude heading to Asian countries

(Bloomberg; Nov. 14) - Diversion of Russia's crude to Asia is gathering pace, with record volumes heading on tankers to the region. The need to switch is becoming more acute as a ban looms on seaborne imports into Europe, which was previously Moscow's core market. Two-thirds of crude loaded onto tankers at Russian ports is now heading to Asia. That compares with less than two-fifths in the weeks before President Vladimir Putin invaded Ukraine in February. China and India form the backbone of the trade, with minor volumes heading to places like Sri Lanka and the United Arab Emirates.

European Union sanctions, which will halt almost all seaborne crude deliveries from Russia to the bloc's members, will come into force in just three weeks' time. The

measures will also bar European tankers from hauling Russian crude and prohibit the provision of insurance, brokerage, finance, vessel classification and other services. There will be exemptions for vessels carrying cargoes that were purchased at a price below a yet-to-be-agreed cap.

Total cargoes shipped from Russia fell to a three-week low of 2.9 million barrels a day in the seven days to Nov. 11. However, the volume of crude on vessels heading to China, India and Turkey, the three countries that have emerged as the biggest buyers of displaced Russian supplies, plus the quantities on ships that are yet to show a final destination, rose to a record 2.39 million barrels a day in the four weeks to Nov. 11. Tankers hauling Russian crude are becoming more cagey about their destinations.

Lack of buyers could drive down Russian oil production

(Bloomberg; Nov. 15) - Russia may struggle to find new oil buyers once a European import ban kicks in, potentially pushing its average output below 10 million barrels a day next year, according to the International Energy Agency. Russia has redirected over a million barrels a day to India, China and Turkey since many of its traditional customers fell away after the war on Ukraine, the IEA said Nov. 16. Yet flows to those countries have steadied recently, raising speculation they may not ramp up imports further.

Should their purchases remain stable, the rest of the world would need to triple Russian imports to around 3.3 million barrels a day by February, the IEA said in a report. “We do not think this is feasible,” it said, predicting Russia may lose close to 2 million barrels a day of output by the end of March 2023, compared with prewar levels, and pump an average of just 9.6 million barrels a day next year.

Russia’s production in January through October averaged about 10.7 million barrels a day, according to Bloomberg calculations based on media reports and data from the Energy Ministry. The European Union is set to ban imports of most Russian crude on Dec. 5 and refined products from Feb. 5. The move will not only create production risks for Russia, but exacerbate a supply headache for the region as alternative fuel sources may not be enough to fill the gap.

OPEC says multiple factors add to oil market uncertainty

(Wall Street Journal; Nov. 14) - OPEC left its forecast for global oil supply and demand largely unchanged on Nov. 14, as it warned that major unknowns such as COVID-19 cases in China and the impact of Western efforts to frustrate Russian oil exports made the outlook for energy markets highly uncertain. In its monthly report, OPEC modestly revised lower its forecast for global oil demand while making small tweaks to its supply forecasts and holding off from making changes to its global economic growth forecasts.

The group cited a raft of “considerable uncertainties” clouding the picture for global oil supplies — from the course of Russia’s war in Ukraine, to a Group of Seven-led plan to cap Russian oil prices which analysts fear could further disrupt global oil supplies. While it kept its forecast for economic growth and oil demand largely unchanged, OPEC warned that the threat of “additional energy-supply disruptions” in the European Union — an apparent reference to the bloc’s impending plans to ban imports of Russian oil — risked heightening the continent’s economic slowdown and pushing it into a recession.

OPEC lowered its forecast for global oil demand growth this year by 100,000 barrels a day to 2.5 million barrels a day. It also lowered its 2023 demand growth forecast by 100,000 barrels a day to 2.2 million barrels a day. Still reeling from the fallout from Russia’s invasion of Ukraine and the disruption to global oil supplies, the oil market is bracing for fresh sanctions on Russia set to come into force early next month which threaten to further redraw global oil supplies.

China says coal power plants a short-term fix to energy security

(Bloomberg; Nov. 15) - China’s plans to add to its world-leading fleet of coal power plants are a short-term Band-Aid to address energy security concerns and don’t represent a shift in emissions policies, according to members of the team representing the nation at the COP27 summit. New plants are being planned to address a spate of high-profile electricity shortages in recent years, while providing a buffer to global energy markets that have become more volatile following Russia’s invasion of Ukraine, according to interviews with three of China’s delegates at the climate meeting in Egypt.

In the long run, electricity market reforms and massive investments in renewable power and energy storage will eventually curb and curtail coal use, allowing the country to hit its targets of peaking emissions by 2030 and zeroing them out by 2060, they said. The strategy underscores China’s desire to avoid the kind of energy crisis facing Europe, but it has set off alarm bells for climate scientists who say the fuel needs to be phased out by 2040 to avoid the worst effects of climate change.

“We need an energy transition that’s high-quality and secure so it can be sustained,” said Li Zheng, a climate change and energy professor at Tsinghua University. “We don’t want to be like Europe and transform at the cost of energy security. They are now declaring that they are taking a step back in order to take two steps forward later.” The climate summit delegatesd downplayed the size of the expansion, saying China’s total coal capacity wouldn’t change much because of retirements of older plants.

Japanese business exec says Asia’s phase-out of coal will be gradual

(Reuters; Nov. 14) - Asia must phase out coal power gradually while still making use of existing infrastructure to make the shift to a carbon-neutral society less disruptive, Seiji Izumisawa, president of Japan's Mitsubishi Heavy Industries, told Reuters on Nov. 14. Efforts to stave off disastrous climate change by a shift to renewable energy have been hampered by a global energy crisis and soaring fuel prices, as Russia sharply cut natural gas deliveries to Europe following its Feb. 24 invasion of Ukraine.

Business leaders and policymakers of the Group of 20 major economies are converging on a view that relying solely on renewable energy may not work, Izumisawa said in an interview. "Previously, the discussion was binary in which you had to choose between renewable energy or existing technology. Now, it's moving toward how to get the best mix of both," said Izumisawa, who co-chaired a task force on energy policy at the meeting of business executives from G20 economies.

A "realistic" mix of renewable energy and greener existing infrastructure is needed to help Asia's emerging economies meet a power consumption boom in coming years, Izumisawa said. Asia may eventually wean itself off coal-fired plants "but the question is timing," Izumisawa said. "You have to think not just about renewable energy, but how to make better use of resources like coal and LNG," he said. Shifting to liquefied natural gas-fueled turbines, or using ammonia as a fuel at coal-fired power plants, may be the near-term solution for Asian nations still relying on coal, he said.

U.S. LNG export supply will grow with three additions by 2025

(Bloomberg; Nov. 15) - It’s been eight months since Russia invaded Ukraine, sending global energy prices soaring and forcing countries into a mad competitive dash to secure new fuel sources ahead of winter. While the U.S. filled some of the supply gap by exporting large volumes of liquefied natural gas from its seven plants, markets are going to have to wait at least two more years before any new LNG supplies from the U.S. come online. Three large-scale projects are now under construction in Texas and Louisiana, yet none will be ready next year.

Two of the projects, Golden Pass LNG near Port Arthur, Texas, and the first phase of Plaquemines LNG, 25 miles south of New Orleans, are expected to begin production in 2024, setting up a race to see which will be the eighth U.S. export terminal. The third project, by Cheniere Energy, the U.S.’s largest LNG exporter, will expand an existing plant in Corpus Christi, Texas, and won’t begin production until late 2025.

Golden Pass is a joint venture between industry titans Qatar Energy and ExxonMobil. It began construction in May 2019. Plaquemines, a project by the closely held Virginia-based developer, Venture Global LNG, quietly started construction in August 2021. Venture Global pulled off a near-miracle in January 2022 when it began production at its first LNG plant, Calcasieu Pass in Cameron, Louisiana, in a record 29 months after securing financing. Many wonder if it can repeat or beat that success with Plaquemines.

Germany expects first LNG import terminal to start up in January

(Reuters; Nov. 15) - Germany on Nov. 15 completed construction for its first floating import terminal for liquefied natural gas at the North Sea port of Wilhelmshaven as it scrambles to secure LNG supplies and move away from Russian pipeline gas. Federal economy minister Robert Habeck said Wilhelmshaven would become functional around the turn of the year, as will a second terminal at the Brunsbuettel North Sea port.

The Wilhelmshaven floating storage and regasification unit, operated for utility Uniper, will be moored at a now expanded pier and will accept and regasify LNG arriving on tankers. The new port infrastructure will be equipped to switch to imports of low-carbon energy sources such as hydrogen in the future, said Lower Saxony Environment Minister Christian Meyer.

Germany relied on Russia for nearly a third of its gas last year but Berlin, which aims to halt any remaining Russian flows by summer 2024, in May started fast-tracking FSRU applications and related ones for onshore LNG receiving terminals at some sites. The Wilhelmshaven FSRU, the Hoegh Esperanza, is still at a shipyard in Brest, France, Eikon Refinitiv ship tracking data showed. A spokesperson said the Esperanza was expected to arrive in mid-December and would be able to accept LNG in January.

Freeport likely to extend outage at LNG export plant in Texas

(Bloomberg; Nov. 14) - A major U.S. liquefied natural gas exporter will likely extend an outage that began in June, curbing much-needed supply to customers in Europe and Asia right before winter. Freeport LNG told buyers it will likely cancel shipments scheduled for November and December as work continues on repairs and regulatory approvals before a restart of the liquefaction plant, according to sources.

The company's LNG export facility in Freeport, Texas, which previously accounted for almost 15% of U.S. shipments of the fuel, was knocked offline following an explosion and fire in June. The fate of the plant has fixated gas traders ever since. U.S. gas prices slumped last week after speculation that repairs could take longer than expected. While global LNG prices are currently sliding amid a temporary glut ahead of the Northern Hemisphere winter, an extended outage at Freeport could tighten the market once again and complicate Europe's effort to replace Russian pipeline gas.

As recently as last week, Freeport said it was targeting a resumption of operations this month. But Freeport recently told customers that timeline has become challenging, according to the people, who asked not to be identified as they weren't authorized to discuss the matter. Freeport LNG hasn't been clear to clients about when its facility will restart, they said. Freeport still needs to submit its restart plan with the U.S. Pipeline and Hazardous Materials Safety Administration before it can resume operations.

Federal report details causes of explosion at Texas LNG plant

(Reuters; Nov. 15) - Federal pipeline safety regulators released on Nov. 15 a heavily redacted consultant's report that blamed inadequate operating and testing procedures, human error and fatigue for the June 8 explosion that shut Freeport LNG's export plant in Texas. The Pipeline and Hazardous Materials Safety Administration issued the report after Freeport disclosed a summary of the consultant's review.

The explosion at the Texas Gulf Coast plant, the second-largest in the U.S., caused global liquefied natural gas prices to spike amid falling Russian supplies to Europe and other outages. Neither Freeport's statement nor the consultant's report indicated when the plant could restart. PHMSA said its investigation is ongoing. Causes of the incident were deficiencies in valve testing procedures, failure to adjust alarms that could warn operators of rising temperatures during operations, and operating procedures that allowed "operator discretion" to close valves, the report said.

It described a control room that did not adequately show when temperatures soared in the LNG pipeline that breached. Other alarms were "constantly indicating" on equipment that had been out of service for years, leading to what some operators described as alarm fatigue. "Severely damaged" electrical wiring likely ignited the released gas from the pipeline breach and led to a fireball, the report said. Freeport's statement said it has adopted procedural changes to improve plant safety and operations.

Chevron sees potential in selling storage space for emissions

(Bloomberg; Nov. 14) - Chevron is studying plans to sell greenhouse gas storage space in Australian underground reservoirs to polluters across Asia. There is potential for geological formations such as those at its Gorgon liquefied natural gas facility in Western Australia to store third-party emissions, said David Fallon, Chevron's general manager of energy transition for Australia. The country is "blessed with a set of good rocks" capable of storing emissions, Fallon said Nov. 14 at a conference in Sydney.

Direct air capture and storage of carbon dioxide — an emerging but costly technology that can remove the greenhouse gas from the atmosphere — had "real scope to provide some interesting opportunities in the future" in the long term, he said. Chevron last week signed an agreement with Mitsui OSK Lines to study the feasibility of transporting liquefied carbon dioxide from Singapore to permanent storage off Australia's coast.

Chevron, however, has struggled to meet targets to capture and store its own emissions at Gorgon, one of the world's largest carbon-sequestration projects, and last year the company said it would need to purchase offsets to address the shortfall. A record number of carbon-capture and storage projects are in development on the back of rising carbon prices and government incentives, though they would still only mitigate less than 1% of annual emissions, the Melbourne-based Global CCS Institute said last month.

Russia approves Japanese stake in new Sakhalin operator

(S&P Global; Nov. 15) - The Russian government has approved Japan's Sakhalin Oil and Gas Development Co.'s participation in the new operator of Sakhalin-1 oil and gas project, Japan's Chief Cabinet Secretary Hirokazu Matsuno said Nov. 15, a move Tokyo sees significant for the country's energy security. "We are aware about the Russian government's decision to approve SODECO's participation in the new Sakhalin-1 company," Matsuno told a press conference. "We see this decision extremely significant from the perspective of our country's mid- to long-term stable energy supply."

Japan sees an equity stake in the Sakhalin-1 project in the Far East as important. Japan, however, recorded no Russian crude imports for the fourth consecutive month in September as the country's top two refiners, ENEOS and Idemitsu Kosan, have already suspended signing new Russian crude contracts. Matsuno's comments come as a Russian government ordinance has been issued to transfer SODECO's 30% stake to the new Sakhalin-1 operator, according to a Japanese government source.

The move by Russia comes after the exit of ExxonMobil, the previous operator and owner of a 30% stake, as President Vladimir Putin ordered a new Russian operator to be established for the project. Under the previous structure, Rosneft held a 20% stake in the project, while SODECO had a 30% stake, with India's ONGC Videsh holding a 20% stake. Japan's Ministry of Economy, Trade and Industry has a 50% stake in SODECO, while Japan Petroleum Exploration holds a 15.285% interest, Itochu 14.456%, Marubeni 12.349%, Inpex 6.08%, and Itochu Oil Exploration 1.83%.

Exploration will start on Mediterranean gas prospect

(Bloomberg; Nov. 15) - TotalEnergies and Eni are preparing to explore for natural gas in previously contested waters off the coasts of Lebanon and Israel, following last month’s accord between the two nations. The French and Italian energy giants, which hold 60% and 40% of Block 9 in Lebanese waters, have signed an agreement with Israel that will allow them to start exploring a prospect that could extend from Block 9 into Israeli waters, TotalEnergies said in a statement Nov. 15.

The U.S. brokered an accord that ended a dispute over potentially gas-rich Mediterranean waters between the two nations, which are historical foes and have no diplomatic relations. The deal is raising hopes for debt-laden and energy-starved Lebanon. It may also provide additional resources for Israel, which would be entitled to payments if hydrocarbons are produced from the prospect.

Preparation for exploration starts now with the mobilization of teams, the purchase of equipment and the procurement of a drilling rig, said TotalEnergies, which is the operator of the block. Meanwhile, gas production has started at the Karish field on the Israeli side of the border, field developer Energean said last month.

Natural gas industry gets warmer reception at climate summit

(Reuters columnist; Nov. 16) - Power producers across Asia that are looking to cut emissions are likely cheering the warmer reception that delegates from the natural gas sector have received at this year's United Nations climate summit in Egypt. Fossil fuel producers got the cold shoulder at previous rounds of climate talks, and have frequently been berated for being major contributors to the global climate crisis due to the pollution resulting from the fuels they extract and sell.

Several African nations made it clear at the COP27 talks in Egypt that they intend to develop their fossil fuel resources in order to alleviate local fuel shortages and develop critical export markets. Climate activists hoping for cuts in fossil fuel use will be disappointed by plans to boost supply. In top power-consuming region Asia, gas is viewed as a cleaner alternative to high-polluting coal, so the prospect of increased gas supplies from Africa will be welcome news.

Power producers looking to make the switch from coal to gas can often replace the boilers and add gas turbines to existing power plants, keeping much of their current power generation and distribution infrastructure intact. In contrast, firms looking to develop large amounts of renewable energy must frequently make costly alterations to the footprint of their energy installations, including securing land for solar or wind farms in remote locations and expanding power grids to link that supply to consumer hubs.