Oil and Gas News Briefs
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OPEC renews call for heavy investment in new oil production

(Wall Street Journal; Oct. 31) - OPEC has called for trillions of dollars of investments in the oil industry over the next two decades to meet what it expects to be booming demand for fossil fuels stretching far into the middle of the century. In an annual report on long-term energy trends, the Organization of the Petroleum Exporting Countries said the industry would need investments totaling $12.1 trillion by 2045 — $300 billion more than expected last year — to satisfy demand and keep energy-security concerns at bay.

Demand for oil is set to be stronger than expected and remain so over the two-decade time horizon the report considers, as developing nations' economies and population rates boom, requiring additional investments in new oil production, OPEC said. As the world prepares for the latest U.N. climate conference in Egypt in November — at which governments are likely to accelerate a move away from fossil fuels — the producers' group said oil investments had been "needlessly demonized" and warned that "chronic underinvestment" in supplies risked worsening a global energy-security crisis.

"It is crucial we appreciate just what each energy source can provide, as we look to answer the questions related to energy affordability, energy security and the need to reduce emissions," said Haitham al-Ghais, OPEC secretary-general. The call highlights the growing divide between the developing nations that produce much of the world's oil — many of which are OPEC members — and wealthier Western oil-consuming nations, which are increasingly redesigning their economies away from fossil fuels.

Oil industry did as told, which was invest less in new production

(Bloomberg opinion; Nov. 2) - The cure for high oil prices is high prices, or so says the industry's adage. High prices will simultaneously reduce demand and increase supply, eventually making the goods less expensive. This has proven true for centuries: In commodities, a bust follows every boom. It happened after the Klondike Gold Rush in 1896, during the oil crisis in 1979, and following the U.S. shale boom a decade ago.

But the axiom no longer seems to be governing the oil market. To be sure, the elevated cost of oil is suppressing appetite. But the other side of the equation — supply — isn't working out. The industry simply isn't reacting to high prices with more investment as it has before. This means demand will have to do all the work to rebalance the market. The result? Likely a slower economy and more sustained energy costs than in the past.

Why isn't the supply lever working? Money certainly isn't the problem. Big Oil has reported its best-ever six-month period, earning more than $100 billion in profits from April to September. However, institutional investors, led by BlackRock, have convinced virtually every oil executive to keep spending under control. Pierre Breber, the chief financial officer at Chevron, put it this way: "We're not really paid for growth by the market." Instead, they are channeling profits into dividends and more share buybacks.

Let's not kid ourselves. Oil companies are doing what we told them to do: Spend less on fossil fuel production. From green philanthropists to Wall Street investors, the message has been nearly unanimous. Besides, the industry realized that spending less was good business. If President Biden wants more oil, he needs to reset the conversation and that means telling green campaigners and investors that America needs fossil fuels now.

West Africa's 2 biggest oil producers in decade-long slump

(Bloomberg columnist; Oct. 30) - The world's infrastructure to pump crude out of the ground is creaking, and nowhere is that more apparent than off the west coast of Africa. Under-investment, theft, sabotage and civil strife have combined with harsh operating conditions to undermine the region's production, driving it to a slump from which it may never recover. In 2010, west African countries were pumping close to 5.5 million barrels a day of crude and condensate. By 2021, that had fallen to little more than 3.5 million.

This year will see levels fall further. West Africa's two big producers, Nigeria and Angola, are both struggling with fields in long-term decline. But the problems don't stop there. The output cuts agreed by the OPEC+ group of oil producers in 2020 in response to the pandemic appear to have resulted in permanent losses of production capacity for the two west African giants. Neither has been able to restore the output that was shut down between April and June 2020, even as their targets began to rise in early 2021.

Production data from Nigeria's petroleum regulator show crude output dropping below 1 million barrels a day in August and September. That's barely half the level of the first months of 2020 before OPEC+ cuts. Even when output targets began to rise, Nigeria's output continued to go in the opposite direction. The country says it will boost output by 500,000 barrels a day by the end of November, said Nigerian National Petroleum Co. CEO Mele Kyari. That's a tall order and would take production to a level that it has not reached in more than two and a half years. I'm not convinced it can get there.

Meanwhile, production is also falling farther south in Angola. When the nation joined OPEC in 2007, it was within a whisker of pumping 2 million barrels a day of crude. 15 years on, it is struggling to keep output at half that level. There are no new offshore production hubs under development that will reverse the decline anytime soon.

China building coal-fired power plants as backup to renewables

(Bloomberg; Oct. 30) - China is building a vast array of new coal-fired power plants, potentially more than the total operating capacity of the U.S., even though it knows the plants will probably never be fully used. The puzzle of why the world's leading installer of clean energy is investing so much in the worst-polluting fossil fuel shows the depth of Beijing's concern over the global squeeze in energy supplies.

It also reflects planning for a gradual relegation of coal from prime power source to a widely available but often idle backup to China's rapidly expanding renewables fleet. Work on at least 165 gigawatts of plants powered by coal should begin by the end of 2023, the National Development and Reform Commission told executives at a meeting in September, according to state-backed Jiemian News. The chairman of China Energy Engineering, meanwhile, has forecast the country could add a total of 270 gigawatts of coal power in the five years to 2025 — more than currently exists in any other nation.

China is intending to avoid the pitfalls that have hobbled parts of the U.S. and Europe, which stopped investing in fossil fuel production and infrastructure before renewables were ready to take over. That's led to an overreliance on imports in some places, and in others a dependence on grids that can fall prey to the unreliability of sunshine and wind. At the recent party congress, President Xi Jinping laid out how China's energy transition would follow "the principle of building the new before discarding the old."

Potash miners and frackers at odds over land access in New Mexico

(Wall Street Journal; Oct. 30) - Frackers in America's busiest oil field are butting heads with miners working to boost production of a vital crop nutrient in short supply following Russia's invasion of Ukraine. Relentless drilling in the Delaware Basin has pushed New Mexico's oil production up faster than in any other state over the past 10 years. But the Delaware, part of the Permian field that straddles Texas and New Mexico, also contains vast deposits of potash, a key fertilizer ingredient for corn, cotton, sugar and wheat.

The two industries are competing for the land. They have slowed each other's efforts recently and diverged on critical matters such as how to keep underground miners safe. The Delaware Basin is a rare location where oil companies conduct high-pressure fracking near miners working underground to extract potash and other minerals. Frackers have had the upper hand for years, pushing deeper into the nearly 500,000 acres of New Mexico's U.S.-designated potash territory, following a 2012 order by the Interior Department that effectively enabled far more oil and gas drilling there.

Miners say they want oil and gas wells farther away from their operations for safety. Oil executives say that is unnecessary, and that a larger buffer zone would leave them fewer places to drill and would eat into production. New Mexico's largest miner, Intrepid Potash, said it is practically hemmed in by shale drillers circling its operations.

The clash comes as global potash supplies have fallen sharply following Western sanctions on key producers Belarus and Russia. The global shortfall has kept prices high for everything from coffee, corn and cotton to soybeans and sugar. “Right now, every [potash] ton in the world is important because of the missing Belarus tons,” said Joel Jackson, an analyst at BMO Capital Markets.

French President Macron wants to build more nuclear plants

(Bloomberg; Nov. 2) – French President Emmanuel Macron wants to streamline rules to build new nuclear reactors faster as maintenance issues beset France’s aging atomic facilities and the energy crisis spurs the country to accelerate the shift away from fossil fuels. His government is seeking parliament’s approval for legislation that would reduce overall construction time by more than two years by speeding up the decision and planning process, according to the Energy Transition Ministry.

The government also aims to fast-track development of solar and wind power projects via a separate bill. The draft proposals, which were presented at a weekly cabinet meeting in Paris on Nov. 2, come as Europe grapples with soaring energy bills and prepares for possible power shortages in coming winters because of Russia’s dwindling gas deliveries and French utility Electricite de France’s reduced atomic production.

Only 30 of EDF’s 56 reactors are currently connected to the grid, with the others halted for maintenance, repairs or refueling. The company is scrambling to get as many as possible back online for the winter as they typically produce about 70% of the country’s annual electricity output. EDF would be allowed to begin preparatory earthworks, as well as the construction of offices and other buildings, while it awaits approval to start work on the core nuclear facilities if the new legislation goes through.

Industry urges B.C. to reach deal with First Nations to allow drilling

(Reuters; Nov. 1) - British Columbia is nearing a deal with First Nations to restart stalled development in Canada's prolific Montney shale play, gas industry companies said in recent days, adding they have urged the provincial government to move quickly or risk missing the winter drilling season. New well licenses in the B.C. Montney have been frozen since last year, when a landmark B.C. Supreme Court decision ruled in favor of a claim from the Blueberry River First Nation that the cumulative impacts of natural resource exploration and development had damaged their traditional territory.

The court agreed that the province had violated the First Nation's rights to use the area for hunting, fishing and cultural activities by allowing so much natural resources development. The court awarded the First Nation C$65 million ($48 million) and control of almost 15,000 square miles of the Montney, Canada's top gas-producing play where about 25 companies operate. Nearly 18 months later, the B.C. government, Blueberry River and other First Nations in the region are still discussing how the province should review and grant permits for natural resource projects.

A deal would allow companies to develop leases they hold in the region, at a time when Canadian gas prices are strong and production is close to record highs. Winter is the busiest time for drilling in Canada, when frozen ground makes it easier to move heavy machinery. Montney companies that missed the 2021-2022 season because of the court decision are anxious not to miss another.

European gas buyers could lose money reselling costly stockpiles

(Bloomberg; Oct. 31) - This should be the winter for companies storing natural gas to cash in on high prices in Europe — supply is short and colder weather will eventually boost demand. Yet the recent dramatic fall in wholesale prices is turning the economics of the sector on its head. The push to fill storage facilities before the start of winter has been successful — with many close to capacity. But some suppliers may now want to hold back those reserves until they can sell their stored gas at more attractive rates.

Such a move would push prices higher and further hurt Europe’s economy, already heading into recession. Gas is usually injected into storage by utilities and energy traders during summer when prices are lower and sent back into the market in winter when prices rise. This year, contracts have moved in the opposite direction. It means some operators, especially in Germany, the region’s biggest gas consumer, may lose money on selling the stored fuel used as a buffer to offset supply disruptions.

Fuel prices this summer, when injections were made into retired salt caverns, aquifers and fuel depots for storage, peaked around record highs. “This is a real problem,” said Henning Gloystein, a director for energy, climate and resources at Eurasia Group. “It can probably only be resolved if some recently nationalized players resell expensively bought gas at a loss.” Benchmark gas futures have lost about 70% of their value from their August peaks due to a warm October. But given how tight the market is with lost Russian gas, industry watchers believe it is a question of when, not if, prices rise again.

Qatar wants to expand into LNG trading business

(Bloomberg; Oct. 31) - Qatar plans to use its massive liquefied natural gas production expansion to transform the nation into the world’s top trader of the fuel. “I think we will be one of the largest, if not the largest, LNG trader in the world,” Saad Al Kaabi, the nation’s energy minister and chief executive officer of state-owned QatarEnergy, said in an interview with Bloomberg TV. “That’s our ambition.”

While Qatar is among the top LNG producers, it usually just delivers the fuel to long-term customers and historically hasn't participated much in commercial trading. The move illustrates how stalwart LNG suppliers are interested in expanding into lucrative dealing activities, as ballooning demand for the fuel and volatile spot prices present attractive arbitrage opportunities.

"We saw that a lot of our volume has been traded in some of the markets, and we think we can do this very well because of our size and because this competency was missing as far as trading was concerned." Al Kaabi expects QatarEnergy's trading desk to be boosted by the expansion of its export capacity in Qatar, the start of a new LNG export project in the U.S., and additions to its tanker fleet. Qatar plans to expand LNG output capacity by more than 60% to 126 million tons per year by 2027. In addition, Qatar has a stake in the Golden Pass export terminal in Texas, which is slated to start up in 2024.

First LNG production from Mozambique will go out in days

(S&P Global; Oct. 31) - The first cargo from Mozambique's Coral Sul floating LNG production vessel is poised to sail in the next few days, marking a milestone for the southeast African country. The British Sponsor tanker is currently loading a cargo at the facility, according to data from Platts cFlow ship tracking tool from S&P Global Commodity Insights. Italy's Eni, the main operator of the Coral South project, confirmed the news on a recent analyst call.

"As you know, we have produced the first LNG in Coral and we are completing the ramp-up to achieve the first cargo," Guido Brusco, chief operating officer at Eni's natural resource division, said on an analyst call Oct. 28. Coral South — which moved to a final investment decision in 2017 — is based on almost 16 trillion cubic feet of gas resources in the Coral field offshore Mozambique. Eni's upstream partners in Area 4 are ExxonMobil, China's CNPC, Portugal's Galp, Korea Gas and Mozambique's ENH.

BP will take the entire volume of LNG produced at Coral South under an initial 20-year contract that was signed with Eni and Area 4 partners in 2016. The plant's output capacity is 3.4 million tonnes per year. Coral South is one of three LNG developments in Mozambique, but is the only offshore project, shielding it from the insurgency that has stalled onshore plants led by TotalEnergies and ExxonMobil.

Freeport LNG in Texas has not yet submitted a restart plan

(Bloomberg; Nov. 1) - Freeport LNG has yet to submit a restart plan for its Texas plant to federal regulators, just days ahead of a planned resumption of its export facility that was closed after an explosion in June. Regulators have said Freeport needs to take a series of corrective actions that must be approved by the Pipeline and Hazardous

Materials Safety Administration before a restart. A PHMSA spokesman confirmed the company hasn't filed the plan. Freeport has said it plans to restart by mid-November.

Freeport accounted for about 15% of U.S. liquefied natural gas exports before it was shut down. The outage reduced supplies at a critical time for energy consumers in Europe, after Russia cut its gas exports to the region following its invasion of Ukraine. The Freeport closure also meant more gas has been made available for domestic use, boosting inventories ahead of winter and holding down U.S. prices.

"We continue to progress our work toward achieving the safe restart of our liquefaction facility this month," Freeport said Nov. 1. "That work includes completing the final repair and restoration efforts, completing required work plans and obtaining the necessary regulatory approvals." Regulators from both PHMSA and the Federal Energy Regulatory Commission told company officials on an Oct. 27 call that they needed information from Freeport "as soon as possible to allow sufficient review time."

Russian LNG exports climb to near record in October

(Bloomberg; Nov. 1) - Russian liquefied natural gas shipments increased in October to nearly a record, illustrating how the world is struggling to curb its dependence on the major supplier ahead of winter. LNG exports from Russia rose 1.1% year on year in October to the highest level since March, according to ship-tracking data compiled by Bloomberg since 2016. That is in stark contrast to plummeting Russian pipeline flows to Europe following the deterioration of relations between the West and the Kremlin.

While almost half of the seaborne gas is still in transit, the top importing nations were France, China and Japan, the data showed. There currently aren't any direct sanctions on Russian LNG, but the rise in exports shows how there is still strong demand for the fuel in preparation for winter, when cold weather is expected to boost consumption and tighten global supply.

Some utilities and governments are moving to halt further purchases or stop deliveries from Russia altogether. The U.K. hasn't imported Russian gas since the war started in February, and will formally ban it from January. Meanwhile, buyers in China increased purchases of Russian LNG to take advantage of discounts, according to traders.

Japanese government asks people to conserve electricity

(Bloomberg; Oct. 31) - Japan is asking households and businesses to conserve electricity as much as possible during the winter as the country tries to ease the pressure on a stretched grid. The government has decided on winter power supply measures, Trade Minister Yasutoshi Nishimura said Nov. 1 at a press conference. The program will run between December and March, and will encourage people to save electricity by turning off lights and wearing more layers of clothing to stay warm indoors.

The campaign will be Japan's second effort this year urging residents to save electricity, following similar measures this summer amid a supply squeeze. The resource-scant nation suffers from a lack of capacity to generate electricity, and the surge in prices for liquefied natural gas combined with the weak yen have made it costly to buy fuel.

Prime Minister Fumio Kishida has also turned to nuclear energy, seeking to restart seven more reactors by next summer. Increased fuel costs and weak yen are putting a strain on regional electricity producers. Hokuriku Electric Power and Chugoku Electric Power have said they will apply to raise regulated rates for households.

Germany's first floating LNG import terminal fully booked

(Bloomberg; Oct. 28) - Germany's first and only private floating LNG import, storage and regasification unit in Lubmin is fully booked for years ahead — and the operator is considering an expansion. The FRSU is planned to start operations in the industrial harbor of Lubmin on the Baltic coast by the end of this year. A second vessel could be chartered from December 2023, a spokesman for the operator Deutsche ReGas said.

As the industrial powerhouse of Europe, Germany has suffered the most from Moscow's squeeze on gas supplies and has taken aggressive steps to increase supply of liquefied natural gas by ship. The government has chartered five other FSRUs to secure fuel for the coming winter and beyond, as gas flows from Russia are unlikely to increase any time soon, if at all.

ReGas has seen a "large" interest in the two rounds of an open-season process for its first FSRU, Stephan Knabe, chairman of the supervisory board, said in a statement. The annual regasification capacity for long-term bookings of about 410 billion cubic feet of gas was oversubscribed at almost 540 bcf. "Our LNG terminal will be fully occupied from December 2022," Knabe said. In the first bidding round, capacities for five to 10 years were booked. In a second phase, non-binding bids for 10 years were submitted.

Falling reserves, transportation problems drive up U.S. diesel prices

(CNBC; Oct. 30) - A perfect storm is taking place in the U.S. diesel market, with dwindling diesel reserves, a drought on the Mississippi River pushing more product to rail and truck, and a possible rail strike leading to a surge in prices that is expected to continue. Diesel prices have increased by 33% for November deliveries. "The national average price for diesel today is $5.30 per gallon and is expected to go up 15 to 20 cents in the next few weeks," said Andy Lipow, president of Lipow Oil Associates.

Reserves for diesel this time of year have not been this low since 1951, with the greatest shortfall in the Northeast region including New York and New England. “This is not only constricting the ability of (Midwest) farmers to export the soybeans and grain they grow but also to receive fuel and fertilizer they need to operate,” Mike Steenhoek, executive director of the Soy Transportation Coalition, said of the low water conditions that have turned the Mississippi River from a multi-lane interstate to a two-lane highway.

Diesel inventories in the New York/New England markets are facing an acute crisis, down over 50% since last year and at the lowest level since 1990, according to Lipow. Lipow said East Coast refineries are making as much diesel as they can and are dependent on tankers and barges for supply. New England’s diesel supply issues were made worse when a Canadian refinery in Newfoundland shut down in 2020 as the pandemic hurt demand and the plant’s economics.

Drought hits hard at Tanzania’s hydroelectric production

(Bloomberg; Oct. 31) - Hydroelectric power generation has slumped in Tanzania as a prolonged drought reduced water levels in rivers and reservoirs, forcing the nation to increase its reliance on gas-fired electricity plants. Combined output from the East African nation’s four hydro plants fell 86% to 34 megawatts, state utility Tanzania Electric Supply said on Oct. 31. About 185 megawatts will be added from gas-fueled plants before the end of the year, it said.

Countries in the eastern and Horn of Africa region have suffered the worst drought in decades, leaving millions of people in need of food aid and hitting economies as the cost of living jumps. Tanzania’s economy, which the International Monetary Fund expects to slow this year, faces blackouts across the country if the rains fail to arrive.

Hydroelectric power accounts for 34% of Tanzania’s energy mix, a portion that’s set to jump when the government commissions a 2,115-megawatt plant, probably in 2024. Currently, about 61% of the nation’s 1,700 megawatts installed power-generating capacity comes from gas plants.