Oil and Gas News Briefs
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U.S. utilities burn less coal, even as natural gas prices are high

(ClimateWire; Sept. 20) - Surging natural gas prices normally result in booming coal generation. But 2022 isn't normal. Power companies are shrugging off the highest gas prices in over a decade as they ramp up electricity generation at gas plants, which are producing 7% more power through September compared to last year. Coal generation, by contrast, is down 8%. The unusual dynamic reflects the energy transition in America.

Gas has long been referred to as the bridge fuel that would connect a period of declining coal usage to a future ruled by renewables. The U.S. is now stuck in the middle of that bridge, unable to tap the full promise of clean energy, nor able to turn back to coal after a decade of power plant retirements. The result is an inflexible dependence on gas, regardless of how much it costs, analysts say.

"The retirement of coal plants and with the drought impact on hydro has left the reserve capacity margin thin in a lot of places, and that has left a lot of reliance on gas," said Ira Joseph, a longtime gas and power analyst. Wholesale power prices in New England and New York, which have effectively eliminated coal generation and lack large renewable fleets, are expected to increase this year by 96% and 124%, respectively.

Coal's position as America's fuel of choice has eroded since the turn of the century. Older plants were closed due to age, environmental regulation and economic pressure. The capacity of the U.S. coal fleet fell 45% over the past decade. In their place rose a fleet of combined-cycle gas plants, which pollute less and are fueled by an ocean of natural gas. Even at high gas prices, power companies continue to burn more of it.

High natural gas prices drive up electricity rates for U.S. consumers

(The Wall Street Journal; Sept. 19) - U.S. utility customers, faced with some of their largest bills in years, are set to pay even more this winter as natural gas prices continue to climb. Gas prices have more than doubled this year due to a global supply shortage made worse by the war in Ukraine, and are expected to remain high for months as gas is needed to light and heat homes this winter. The tight supply has made it substantially more expensive for utilities to buy or produce power, passing on the costs to customers.

From New Hampshire to Louisiana, customers' electricity rates are increasing. The Energy Information Administration anticipates the residential price of electricity will average 14.8 cents per kilowatt-hour in 2022, up 7.5% from 2021. The agency forecasts record gas consumption this year amid surging prices, in part because power producers are limited in their ability to burn coal due to supply constraints and plant retirements.

Electricity prices have surged in many parts of the country alongside natural gas prices as exporters ship record amounts of gas because of supply shortages in Europe, which is working to slash its reliance on Russian supplies. U.S. gas producers, hamstrung by pipeline constraints and investors pushing for austerity, haven't increased production enough to alleviate the pressure. The strain is particularly acute in New England, which is investing heavily in renewable-energy sources but many of those projects are not yet operational, and the region still relies heavily on gas for electricity production.

China spends record amount on Russian energy supplies

(Bloomberg; Sept. 19) - China's spending on Russian energy products hit a record $8.3 billion last month, as the world's top importer continues to expand its reliance on Moscow for overseas supplies of crude, oil products, gas and coal. The haul for August was 68% higher than a year ago and included a record amount of coal, according to Chinese customs figures on Sept. 20. It brings the total over the six months since Russia's invasion of Ukraine to nearly $44 billion, an increase of 74%.

Although import values have been inflated by the global spike in energy prices caused by the war, China is still taking more volumes from its strategic ally, sometimes at discounted rates. Russia for its part needs to find a home for exports that are being shunned by much of the rest of the world as punishment for the invasion. China's increased spending also comes despite generally weaker energy imports this year as demand is crimped by a slowing economy and the government's COVID-Zero policy.

China imports record amount of coal from Russia

(CNBC; Sept. 20) - China's coal imports from Russia rose in August, exceeding last month's level and hitting the highest in at least five years, as power utilities in the world's biggest coal consumer sought overseas supplies to meet soaring demand in extreme hot weather. Arrivals of Russian coal last month reached 8.54 million tonnes, up from the previous peak of 7.42 million tonnes in July and 57% higher a year ago, data from the General Administration of Customs showed on Sept. 20.

The monthly figure was the highest since comparable statistics began in 2017. Imports from Russia have surged in recent months as Europe suspended purchasing from the country after it invaded Ukraine, forcing Russian coal to trade at a steep discount. Prices for Russian coal have climbed as both China and India stepped up buying, traders said, but were still cheaper than te domestic coal of same quality.

As a severe drought and heatwave hit western and southern China from late July, coal-fired power plants geared up production to meet the spiking demand for air conditioning and the supply gap from hydropower stations. They also increased purchases of higher quality thermal coal, such as Russian coal, to improve electricity generation efficiency. Power utilities are expected to increase imports in October to replenish stocks ahead of the kick-off of the heating season in most of northern China in mid-November.

Shipping rates for oil and gas surge as tankers out on longer voyages

(Bloomberg; Sept. 20) - Costs for shipping energy are surging as Europe's scramble for supplies creates a shortage of vessels to carry essential fuels this winter. Ships are carrying liquefied natural gas, diesel and crude to Europe from farther away than usual to replace Russian energy supplies, as the conflict in Ukraine shows no sign of ending. That's keeping vessels occupied for longer and delaying their return to service, sparking a rally in global freight rates, said shipping experts.

LNG freight rates are at elevated levels for this time of year and threaten to surpass last winter's peak. The cost of shipping a U.S. oil cargo to China is the highest since 2020, while transporting a cargo of naphtha petrochemical feedstock from the Middle East to Japan costs more than twice as much as it did in March, according to data.

The ship shortage threatens to impact Asian economies that import oil and gas from the U.S., as they may find it difficult to get spare cargoes at short notice if the weather turns extremely cold this winter, said traders and shipowners. Even petrochemical feedstock shipments are becoming more expensive to transport, further burdening buyers grappling with sluggish demand for chemicals as the pace of manufacturing slows. There are very few LNG ships available for hire through the winter, and only for short voyages, said Oystein Kalleklev, CEO of shipowner Flex LNG Management.

Oil tanker charter rates climb to highest in more than two years

(Bloomberg; Sept. 15) - Benchmark oil tanker charter rates topped $50,000 a day for the first time in more than two years as Russia's invasion of Ukraine upends global crude flows. Rates for giant supertankers that can haul 2 million barrels of oil climbed to $50,682 a day, the highest since June 2020. Europe's oil refiners are pulling more crude from further afield — particularly the Middle East and U.S. — boosting demand for the world's biggest oil tankers.

The higher volumes have left shipowners optimistic that earnings will continue to rise after a prolonged period of low rates, where owners were effectively subsidizing voyages. Higher Middle East and U.S. flows to Europe are requiring ships to sail longer distances than before the invasion, effectively reducing the number of available vessels.

Tanker traffic through Danish straits could be next fight with Russia

(Bloomberg columnist; Sept. 17) - Every day, dozens of oil tankers cross the narrow waterway. Shut it down and gasoline prices spike everywhere. Right now, geopolitical tension is high, and the navies of great powers have warships patrolling it. If you think we're talking about Iran and the Strait of Hormuz, you're not close. No — welcome to the frigid waters of the Danish straits, the narrow waterway overlooked by Copenhagen that links the Baltic Sea to the North Sea and the open waters of the Atlantic Ocean.

It matters now because it's a key conduit for Russian crude and refined products into global markets, making it a chokepoint for Kremlin finances, where geography, history and politics are clashing. The straits, at one point just 2½ miles wide, are at risk of being ensnared in a tussle between the U.S. and Europe on one side and Russia on the other.

In December, European Union rules will make it illegal to provide maritime services to anyone exporting Russian crude. But the straits are a difficult passage: Storms are common, waters are shallow, the coast rocky, and submerged sandbanks often move with the currents, reducing draft unexpectedly. That's why the Danish government, and the U.N. International Maritime Organization, strongly recommend — although don't require — every vessel, particularly oil tankers, to hire a Danish pilot for the crossing.

Under the EU rules, tankers carrying Russian oil could lose their Danish pilots. Withdrawing the pilotage service in the dangerous waters is playing Russian roulette. The last thing we need to add to the already high cost in lives and property of Russia's invasion of Ukraine is something like the Exxon Valdez catastrophe in the Baltic.

Saudi CEO again says lack of investment to blame for high oil prices

(Bloomberg; Sept. 20) - Saudi Aramco said a lack of investment in fossil fuels was to blame for the global energy crisis and warned that spare production capacity in the oil market might be wiped out once economies rebound. "When the global economy recovers, we can expect demand to rebound further, eliminating the little spare oil production capacity out there," Aramco's CEO Amin Nasser said in a speech on Sept. 20. "By the time the world wakes up to these blind spots, it may be too late to change course. I am seriously concerned."

Oil and gas investments slumped from $700 billion in 2014 to $300 billion in 2021, according to Nasser, with increases this year being "too little, too late." The world's biggest oil company has, along with rivals in the United Arab Emirates and elsewhere in the Persian Gulf, repeatedly has said governments and investors in the West are being unrealistic about how quickly renewable energy can replace oil and gas. They've cited the surge in energy prices over the past year as evidence of that.

Crude climbed above $125 a barrel in the wake of Russia's invasion of Ukraine, though it's since dropped to $90, while European natural gas prices hit record highs. Western nations are paying the price for shutting down oil- and coal-fired power plants before solar and wind could take over, said Nasser. "As this crisis has shown, the plan was just a chain of sandcastles that waves of reality have washed away," he said.

UAE reportedly speeding up plan to boost oil production

(Bloomberg; Sept. 19) - The United Arab Emirates is accelerating a plan to raise its oil production capacity, according to people familiar with the matter, as it tries to cash in on its crude reserves before the world transitions to cleaner energy. Abu Dhabi National Oil Co., which pumps almost all the UAE's oil, wants to be able to produce 5 million barrels a day by 2025, according to sources. That's sooner than a previously disclosed 2030.

The new target will be difficult to achieve and may increase the expense of a project that was already set to cost billions of dollars, the sources said. The UAE is pushing to sell more oil and gas while prices stay high. Oil soared to $120 barrel following Russia's invasion of Ukraine. While it's slumped since June to around $90 amid concerns about a global economic slowdown, it's still far above the UAE's production costs.

"As we embrace the energy transition and future-proof our business, we will continue to explore potential opportunities that can further unlock value, free up capital and enhance returns," ADNOC said in a statement. It has asked international companies that are partners in its oil fields to raise their long-term production levels by 10% or more, according to the people. The UAE is the biggest producer in OPEC after Saudi Arabia and Iraq. It says it has the ability to produce about 4 million barrels a day. But last month, output was just under 3.4 million, according to data compiled by Bloomberg.

Private drillers in Permian may run out of best prospects

(The Wall Street Journal; Sept. 19) - Dozens of small drillers helped fuel a resurgence in the busiest U.S. oil patch over the past two years. But they tapped many of their best drilling spots, and will have to ease their rapid pace of drilling as their inventory shrinks, analysts and executives say. Private drillers in the Permian Basin of West Texas and New Mexico emerged from the pandemic-induced oil downturn last year as a growth engine for U.S. shale as their publicly traded rivals are restrained by shareholders pushing for conservative spending, more share buybacks, dividends and cutting debt.

After growing rapidly, most smaller producers now have, on average, around six years of drilling locations that could generate returns at low prices, according to data provided by energy analytics firm Enverus. Energy executives say those limitations will likely lead them to slow down their drilling. "Can private companies maintain this pace indefinitely?

The answer is no," said James Walter, co-CEO of publicly listed Permian Resources. "There's just not enough companies of scale, with enough quality inventory."

The constraints will likely lead many private producers to level out activity or sell themselves to larger companies which would temper their growth, executives and analysts said. A pullback could crimp overall U.S. oil production. Private producers hold about one-fifth of the Permian's most valuable acreage, analysts said. Some private drillers said supply-chain constraints and financial considerations were the main reasons they are slowing Permian drilling, not inventory of drilling prospects.

Pakistan may be able to defer payments on Russian oil

(The Express Tribune; Pakistan; Sept. 18) - Pakistan may be able to import oil from Russia on deferred payments as both countries are in talks to discuss the possibility, a senior government functionary revealed on Sept. 18 after the recent meeting between Prime Minister Shehbaz Sharif and Russian President Vladimir Putin on the sidelines of Shanghai Cooperation Organization in Samarkand.

The official, who was part of the prime minister's delegation, said Shehbaz held at least three meetings with Putin. "What we have discussed during the recent interaction with the Russian side is the possibility of importing oil on deferred payment," the official said. Russia has shown inclination to consider the proposal, the official said.

If the proposal comes through, it would be a landmark development given that Pakistan imports oil from Gulf countries, and in the past Saudi Arabia and UAE supplied Pakistan oil on deferred payment. But it is not clear if the government can pursue the option given the likely opposition from the United States. A source in the foreign office disclosed that the U.S. has never explicitly asked Pakistan not to import oil from Russia, but "advised us that it is better if we don't enter into such venture with Russia."

India buys expensive spot-market LNG after losing Russian gas

(Bloomberg; Sept. 19) - India purchased some of the nation's most expensive liquefied natural gas shipments ever after vital Russian deliveries were canceled. GAIL India bought several LNG cargoes for delivery between October and November at more than double the price it paid around this time last year. The company is struggling to replace supply from the former trading arm of Gazprom, which was nationalized by Germany earlier this year and is paying contractual fines rather than delivering fuel to India.

The global surge in gas prices after Russia's invasion of Ukraine has hit price-sensitive emerging countries hard, forcing them to pay high spot-market rates or face blackouts and industrial shutdowns. India's retail inflation surged in August due in part to higher fuel costs. GAIL last week bought three LNG shipments for October to November delivery above $40 per million Btu, among the most expensive cargoes ever for India.

GAIL won price and volume concessions before the 20-year contract with Gazprom's marketing division in Singapore started in 2018. That unit was technically part of Gazprom Germania, which was seized by Germany's regulator in April and renamed Securing Energy for Europe. The company is no longer able to source the fuel from Russia and said it doesn't have other supplies to send to India. It is paying GAIL contractual penalties for non-delivery, which are likely a fraction of current spot prices.

France's Total Energies may increase its investment in Qatari LNG

(Bloomberg; Sept. 20) - TotalEnergies will make another investment in Qatar's natural gas fields, as Europe intensifies efforts to wean itself off Russian supplies of the fuel. The French energy giant is set to take a stake in a project called North Field South, according to people familiar with the matter. The multibillion-dollar plan will boost Qatar's exports of liquefied natural gas, though it will take several years to complete.

Qatar is increasing its LNG output capacity amid a global energy crunch. It's unclear how much TotalEnergies will invest in North Field South, which includes the construction of several gas liquefaction plants.

Earlier this year, Qatar sold equity stakes worth 25% in North Field East, a separate gas project costing about $29 billion. TotalEnergies acquired 6.25%. The other investors were Shell, ExxonMobil, ConocoPhillips and Eni. Together, the two projects will increase Qatar's LNG capacity by almost 65% to 126 million tons a year by 2027.

German utilities closer to LNG supply deal with Qatar

(Reuters; Sept. 19) - German utilities RWE and Uniper are close to striking long-term deals to buy liquefied natural gas from Qatar's North Field Expansion project to help replace Russian gas, three sources familiar with the matter said. Talks between Germany and Qatar have been fraught with differences over key conditions such as the length of contracts and pricing but the industry sources, who declined to be named, said the parties were expected to reach a compromise soon.

Europe's biggest economy aims to replace all Russian energy imports by as soon as mid-2024, a Herculean effort for a country that mainly relies on natural gas to power its industry. While supply deals with Qatar would be positive for Germany, they would not offer an imminent solution to Berlin's energy crisis as the vast North Field Expansion project is not expected to come online before 2026.

Reuters reported in May that the talks had run into difficulties because Germany was reluctant to commit to deals of at least 20 years and also wanted prices linked to Dutch benchmark gas prices, rather than oil. A source said the utilities were likely to agree to 15-year deals. At the moment, the two utilities buy LNG from Qatar on the spot market. The North Field Expansion project includes six LNG trains that will ramp up Qatar's liquefaction capacity from 77 million tonnes per year to 126 million tonnes by 2027.

Germany will nationalize utility to save it

(The Wall Street Journal; Sept. 21) - Germany will nationalize Uniper, seeking to save the country's largest gas importer that was hit hard by Russian natural gas cuts to Europe. The German government said Sept. 21 it would take a 99% stake in the energy giant and inject in 8 billion euros, equivalent to about $8 billion. Berlin will acquire the stake of Uniper's parent company, Finnish utility Fortum Oyj.

Uniper was Germany's largest importer of Russian natural gas and suffered heavy financial losses after Moscow throttled supplies. Uniper was forced to buy gas in a market where prices have hit record highs in recent months. With Uniper's nationalization, Berlin is moving to save a systemically important company as Europe's races to shift away from its decadeslong reliance on Russian fossil fuel exports. "This step has become necessary because the situation has worsened significantly," Robert Habeck, Germany's economy minister, said.

The emergency state support, including nationalization, is unlikely to end with Uniper. German officials say that they are drafting plans to take control and shore up stakes in local businesses of Rosneft, the Russian state-owned oil giant, including a refinery. Uniper CEO Klaus-Dieter Maubach said that Germany's move meant the company can continue its operations. The company, which generates electricity across Europe and trades gas around the world, had relied on long-term supply contracts with Kremlin-controlled energy exporter Gazprom.

Campaigners challenge Europe's decision to label gas as 'green'

(Reuters; Sept. 19) - Greenpeace and other environmental campaigners have launched legal challenges against the European Commission over its decision to include natural gas and nuclear energy in the European Union's list of "green" investments. They argue the EU violated its own climate laws by doing this, citing the greenhouse gas emissions produced by gas power plants, and say the move risks diverting investments into fossil fuels instead of renewable energy.

Greenpeace said it had requested an internal review of the Commission's decision to label gas and nuclear energy as green. Four other environmental groups — WWF, Friends of the Earth Germany, Transport & Environment and ClientEarth — focused on gas. The European Commission said it would reply to the requests in due course.

In focus is the European Union's “taxonomy,” a rulebook defining which investments can be labeled climate friendly and designed to guide investors toward green projects that will help deliver the bloc's emissions-cutting targets. The commission has until February to respond. If the Commission does not withdraw the rules, the groups said they would take their challenges to the European Court of Justice.

Cheniere will repair or replace LNG plant turbines to meet standards

(Reuters; Sept. 21) - Top LNG exporter Cheniere Energy said it will repair and replace equipment at its Louisiana terminal after tests showed it exceeded newly imposed hazardous emissions limits on certain carcinogens, but the work will have no material impact on operations. A round of testing showed at least one of the turbines at its liquefaction plant failed the new standards, while the turbines at the company's other U.S. LNG facility, in Texas, were meeting the rules, according to documents obtained from state regulators through a series of information requests and reviewed by Reuters.

At issue is a rule under the U.S. Clean Air Act called the National Emissions Standards for Hazardous Pollutants — which imposes curbs on emissions of known carcinogens like formaldehyde and benzene — that was reinstated in February to apply to a type of gas-fired turbine only used in the LNG industry by Cheniere. Cheniere, the top U.S. supplier of LNG to Europe, earlier this year asked the Biden administration for an exemption from the new rules, arguing they could undermine U.S. efforts to ramp up shipments to offset gas supply cuts from Russia. The EPA denied the request.

Cheniere told Louisiana regulators in an email Sept. 8 that its initial testing showed one of eight generator turbines at its Sabine Pass LNG facility had failed to meet the newly imposed requirement, and that it would conduct repairs on the turbine to bring the emissions down. In the same email, Cheniere requested approval from the state to retest eight compressor turbines and said it was replacing four others, but did not detail the results of initial tests on those pieces of equipment.

Another Japanese buyer reaffirms purchase of Russian LNG

(The Japan Times; Sept. 20) - Toho Gas has renewed its contract to purchase liquefied natural gas from the Sakhalin-2 oil and gas project in Russia, a company official said Sept. 19, amid energy security concerns in resource-scarce Japan. Toho Gas is the latest to join several other Japanese companies in continuing their investments in the Sakhalin-2 project. Its decision came after Russia established a new operator for the project in Russia’s Far East following Western energy firms’ investment withdrawals.

Toho Gas has agreed with the new operator, established on Aug. 5 under a decree by President Vladimir Putin, on the same contract terms as the previous operator. Under the new deal, Toho Gas will still procure about 500,000 tons of LNG per year until 2033. Nagoya-based Toho Gas, which depends on Sakhalin-2 for about 20% of its total LNG procurement, assured its customers it will continue to strive for stable gas supplies.

The contract with Toho Gas is the latest such agreement between the new operator and a Japanese energy company, following a string of deals that include JERA, a joint venture between Tokyo Electric and Chubu Electric, as well as Kyushu Electric and Hiroshima Gas. Russia has also authorized investments by major Japanese trading houses Mitsui and Mitsubishi in the project under the new operator. Japan has said it considers the project vital; Sakhalin-2 LNG accounts for about 9% of its LNG imports.

U.S. LNG developer seeks equity partners after canceling bond sale

(Bloomberg; Sept. 20) - Tellurian will seek equity partners to help finance a $13 billion liquefied natural gas project after abandoning plans to sell bonds to kick-start the development. The aborted bond sale puts the planned 2026 start-up of Tellurian's Driftwood LNG complex in Louisiana in jeopardy, Tellurian Chairman Charif Souki said in a video posted on YouTube a day after cancelling the $1 billion bond deal.

The company, which was criticized by an investor last week for diluting shareholders through multiple equity issuances, plans to raise money from "strategic" equity partners, Souki said. Tellurian has sold stock 10 times since its inception six years ago, according to data compiled by Bloomberg. The shares plunged 24% during regular U.S. trading hours on Sept. 20 and tumbled another 16% after the close.

"The money is most likely to come from a potential strategic partner, because this is where the money is today," Souki said. Souki, who has been trying to line up financing for Driftwood since shortly after his 2015 ouster from Cheniere Energy, also must contend with growing aversion to risk among investors as central banks step up anti-inflation measures that are making money more expensive to borrow. Tellurian had previously sweetened the bond deal to include a sky-high 12.5% all-in yield, friendlier terms for investors and collateral that included shale gas fields.

Canada expects to boost exports as U.S. ends release from reserves

(Reuters; Sept. 20) - U.S. refiners are expected to buy more Canadian oil after the Biden administration ends releases from the Strategic Petroleum Reserve this fall, traders said, adding this should boost the price of Canadian barrels at a time of tight global supply. The coming end of SPR releases could shift market dynamics again in a year of high volatility following Russia's invasion of Ukraine. In March, the White House announced it would release 180 million barrels from U.S. reserves to ease high prices.

The releases have weighed on the price of Western Canada Select, the benchmark Canadian heavy grade. That oil, because it has similar qualities to the sour crude that dominates U.S. reserves, has traded at around $20 a barrel below U.S. West Texas Intermediate crude for much of the summer. In 2021, the average WCS discount was $12.78 a barrel, according to the Alberta Energy Regulator. The WCS discount to WTI is expected to narrow as the SPR supply dwindles, market sources said.

Canadian crude exports from the U.S. Gulf have dropped in the past two months, falling to around 130,000 barrels per day in July and August, below last year's pace of 200,000, said Matt Smith, lead oil analyst for the Americas at Kpler. Foreign buyers have turned to discounted Russian barrels, reducing Canadian crude exports. "It's a bit of a game of musical chairs," Smith said. "When the SPR releases finish, these refiners will look to lean harder again on Canadian barrels or seaborne imports." Canada hit record production of 5.5 million barrels a day of oil in 2021, according to the U.S. Energy Information Administration, and is forecast to reach 5.7 million this year.