Oil and Gas News Briefs
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OPEC+ announces surprise cutback in oil production

(Bloomberg; April 2) - OPEC+ has announced a surprise oil production cut of more than 1 million barrels a day, abandoning previous assurances that it would hold supply steady to maintain a stable market. That's a significant reduction for a market where — despite recent price fluctuations — supply was looking tight for the latter part of the year. The inevitable price rise could add to inflationary pressures across the world, forcing central banks to keep interest rates higher and amplifying the risk of recession.

Saudi Arabia pledged its own 500,000 barrel-a-day supply reduction. Fellow members including Kuwait, the United Arabia Emirates and Algeria followed suit, while Russia said the production cut it was implementing from March to June would continue until the end of the 2023. The initial impact of the cuts, starting next month, will add up to about 1.1 million barrels a day. From July, due to the extension of Russia's reduction, there will be about 1.6 million barrels a day less crude on the market than had been expected.

A recently as March 31, delegates from OPEC and its allies had been indicating privately that there was no intention to change their production limits. Oil fell to a 15-month low last month due to the turmoil caused by the banking crisis, but prices had recovered as the situation showed signs of stabilizing. The Saudi energy ministry said in a statement on April 2 that the kingdom's voluntary cut was a precautionary measure aimed at supporting the stability of the oil market.

Oil prices surged on April 3, posting their biggest daily rise in nearly a year after OPEC's surprise announcement jolted markets. Brent crude was trading at around $85 a barrel as of mid-morning. As a result of the OPEC news, Goldman Sachs raised its Brent price forecasts to $95 and $100 a barrel for 2023 and 2024, respectively, it said in a note.

U.S. crude oil production highest since March 2020

(Reuters; March 31) - U.S. field production of crude oil rose in January to 12.46 million barrels per day, the highest since March 2020, Energy Information Administration data showed on March 31. Among oil-producing states, monthly output in Texas rose 1.5% to 5.24 million barrels per day, the highest since March 2020, the EIA said. In North Dakota, output jumped 10.2% to about 1.05 million, the highest since November 2022. In New Mexico, output grew 1.1% to 1.79 million, the highest on record, the EIA said.

Alaska was in fourth place in January, just edging out Oklahoma in fifth and ahead of sixth-place Colorado. In the federal offshore Gulf of Mexico, production surged 7% to 1.91 million barrels per day, the highest since March 2020.

While production is growing, U.S. crude oil exports in 2022 averaged 3.6 million barrels per day, a record high according to export data that has been collected since 1920. U.S. crude oil exports in 2022 were 22% (640,000 barrels per day) higher than in 2021, the EIA reported. Increased U.S. oil production, releases from the U.S. Strategic Petroleum Reserve, and more global demand for crude from countries looking to avoid Russian oil all drove the growth in U.S. crude oil exports.

Markets watch to see if China's oil demand pulls up prices

(Wall Street Journal; March 31) - Wall Street projected an oil bonanza this year. The first quarter upended those expectations. Russia has continued pumping out crude despite Western sanctions. The U.S. market has remained awash in oil after the end of the emergency release of strategic oil reserves. And a Chinese rebound that underpinned some analysts' predictions of a commodity boom has yet to juice global demand.

Instead, oil producers and traders that captured huge profits in 2022 are now weighing whether a slowdown in the U.S. and Europe is coming sooner rather than later — if it comes at all. The tremors at Western banks in March magnified that uncertainty, leaving investors wading through crosscurrents running from financial markets to the real world. Some investors fear that crude's China-driven rally could be slowed by an uncertain outlook for U.S. and European industries heavily reliant on gasoline, diesel and jet fuel.

For now, many physical trading houses and hedge funds that speculate on oil continue to see upside in China, parsing shipping routes, traffic patterns and air-travel numbers for hints that its post-pandemic recovery is gaining steam. The country imported nearly 11.4 million barrels of seaborne oil a day in March, according to commodities data tracker Kpler, the second-highest monthly total the firm has recorded. For some traders, however, the big question is whether China's appetite for oil will grow — boosting prices — before the U.S. and European hunger for energy subsides.

U.S. produces more natural gas than it needs, driving down price

(Bloomberg; March 30) - For U.S. gas producers, an LNG export boom can't come soon enough. Mild weather and long-term pipeline constraints are limiting consumption at home while production is marching toward record levels, leaving the country awash with gas. From the heady days of last summer, when fears over global shortages peaked, prices at Henry Hub — the Louisiana pipeline that serves as a national benchmark — have fallen almost 80%, dipping this week below $2 per million Btu, akin to 2020 prices.

Relief is coming, but it will take time. While liquefied natural gas plants are springing up along the Gulf Coast, it will be at least a year until the next major export facility becomes operational. Projects led by Sempra Energy and Venture Global LNG overcame the banking crisis to get their final go-ahead this month, at a combined investment of almost $21 billion, but construction will take two to four years. In the meantime, producers are riding out the cycle with a well-worn strategy of idling rigs, hedging and tapping debt.

How long this current downturn may last is unclear. U.S. gas production is up 25% in the past five years, driven by shale oil basins, where gas is a byproduct of valuable crude. And there's the impact of producers' zeal for curbing gas flaring. That's good for the climate but it's boosting supply, as well. And there's another, more fundamental change looming on the horizon. As shale oil wells mature, they become more gassy. One energy executive said this is already happening in North Dakota, where gas output is near record levels, even though crude production is down 25% since 2019.

U.S. coal prices down 57% amid oversupply, diminishing use

(Wall Street Journal; March 30) - Coal prices have come crashing down from last year's records. Central Appalachian coal has been trading at $88.80 a short ton, down 57% from the record $205.55 at the start of the year. Cash prices for thermal coal mined from northern Appalachia and the Illinois Basin — where a lot of exported coal originates — have fallen more than half since September, when Europe was stocking up for winter. Now both sides of the Atlantic have ample stockpiles of coal, pushing down prices.

Coal markets are highly influenced by those for natural gas, which is also burned to generate electricity. As with coal, natural gas inventories that looked alarmingly low last summer also have recovered thanks to unusually warm winter weather, pushing down prices. Natural gas futures for May delivery ended March 30 at $2.104 per million Btu, down 63% from a year ago. Coal also faces increased competition from renewables, including wind, solar, hydropower and biomass, which last year accounted for more U.S. power generation than coal for the first time ever, federal record-keepers said.

“We went from undersupplied to oversupplied very quickly,” said Andy Blumenfeld, data analytics director at McCloskey by OPIS, a pricing service. For decades, coal was the primary fuel burned to generate electricity in the U.S. Since 2010, though, coal-fired generating capacity has dropped more than 36% amid concerns about emissions and the abundance of shale gas. Power plant owners are expected to retire another 4.5% of coal-fired capacity this year, according to the U.S. Energy Information Administration.

Rising interest rates, higher costs make it harder on wind, solar

(Wall Street Journal; March 31) - The wind and solar industries have always suffered from the short-term nature of subsidies, with federal tax credits often extended one year at a time. Last year's climate bill — the Inflation Reduction Act — changed that, offering subsidies for at least a decade. But just as policy winds blow in their favor, two critical drivers — interest rates and equipment costs — are moving in the wrong direction.

Wind and solar is especially sensitive to rates because debt can comprise as much as 85% to 90% of capital costs. Renewable developers have known only low rates for most of their history. Nearly all U.S. utility-scale solar facilities and 85% of onshore wind farms were installed since 2009, during which period the federal-funds rate was close to 0% in eight out of 13 years. After the most recent rate hike, rates are the highest since 2007.

Some new solar and wind projects facing higher borrowing costs might not make it off the drawing board. Borrowing isn't the only thing that costs more. Following years of price declines thanks to technology and economies of scale, equipment is getting more expensive too. Trade policies aimed at Chinese manufacturers have caused delays and shortages for the solar industry, which relies heavily on the country for its components.

German utility RWE, an active developer in the U.S., said last week that imports of solar modules from Asia are now subject to "stringent checks" and it could fall behind on its expansion plans if the U.S. continues to "impede the procurement of solar panels." And supply-chain issues and interconnection delays already started slowing the clean power industry last year. Ultimately, solar and wind's ability to absorb cost and interest-rate hikes depends on how willing utilities and corporations are to pay higher prices.

Dissent among U.N.-backed coalition over oil and gas investments

(Reuters; March 31) - A member of a U.N.-backed coalition of insurance firms and pension funds seeking to tackle climate change told Reuters it was considering quitting after disagreements about curbing investment in the oil and gas sector split the group. Danish pension fund AkademikerPension may leave the Net-Zero Asset Owner Alliance because new requirements for its 85 members do not attach enough strings to owning shares and bonds of oil and gas companies, its chief investment officer said.

"The position doesn't live up to our standards and we will have to consider our involvement in NZAOA moving forward," Anders Schelde said, referring to the final draft of the paper after an 18-month consultation process. It's the latest in a string of policy splits among major climate coalitions of financial firms. In the paper published on March 29, NZAOA, whose members control $11 trillion in assets, said it expected members to no longer finance new oil and gas projects directly linked to exploration and production.

AkademikerPension wanted the position paper to state that NZAOA members should only invest in public equities or corporate bonds when the companies involved are no longer investing in any exploration for new oil and gas. "We're not saying all NZAOA members should dump listed equities of oil majors from tomorrow, but it should be a clear aim and clear position that new oil and gas is incompatible with 1.5 degrees," said Schelde, referring to efforts to cap global warming at that level by mid-century.

[Repairs will delay full output at new Louisiana LNG terminal]

(Natural Gas Intelligence; March 30) - Venture Global LNG has notified the Federal Energy Regulatory Commission and customers of technical problems at its Calcasieu Pass terminal in Louisiana that could further delay the launch of full commercial operations. In a recent filing to FERC, the Virginia-based company wrote that the liquefaction plant experienced failures at the power island and heat steam recovery generator during routine tests last year.

After further tests, the issues with the heat system were traced to weld leaks. Those issues require an investigation by supplier General Electric, according to Venture Global. “The units will require extensive repairs and replacements before the power island can function reliably and as designed,” the filing noted. Venture Global has issued force majeure to some of its spot and long-term customers, saying its full commercial operations date will be delayed "because it continues to face periodic reliability challenges," according to one of at least four traders with knowledge of the matter.

The company in August 2019 sanctioned construction of the terminal. The facility is designed for 18 modular liquefaction trains and commissioning in phases totaling 10 million tonnes annual output capacity. Liquefied natural gas initially was produced at the terminal early last year, and the first commissioning cargo was loaded in February 2022. Since then, the company reported 128 cargoes have been exported to 24 countries, with about 75% going to Europe. Venture Global told FERC it would continue commissioning activities and loading cargoes while repairs are underway.

[Freeport LNG in Texas back to full operation after 8-month shutdown]

(Reuters; March 30) - The Freeport LNG export plant in Texas is on track to pull in as much natural gas from pipelines as the facility can process into LNG, a sure sign that it is back at full power, according to data provider Refinitiv. The plant has been slowly pulling in more feed gas since the end of an eight-month outage in February, having shut down after a fire in June 2022. Gas flows to Freeport LNG were on track to rise to 2.1 billion cubic feet per day on March 30, up from 1.8 bcf the day before. When running at full power, the three liquefaction trains can turn about 2.1 bcf a day of gas into LNG.

Total flows to all seven big U.S. LNG export plants have risen to an average of 13.1 bcf a day so far in March, up from 12.8 bcf in February. That would top the monthly record of 12.9 bcf in March 2022 before Freeport LNG closed down. On a daily basis, preliminary figures show feed gas flows to U.S. plants were on track to hit a record high of 14.4 bcf on March 29, which would top the daily record of 14.2 bcf. LNG plants use some of the gas they receive to run the liquefaction units and other equipment.

Iran wants to revive stalled projects and get into LNG export trade

(Natural Gas Intelligence; March 29) - Despite holding the world's second-largest natural gas reserves and having Russia as a new partner, Iran faces challenges to revive one of its three proposed LNG export projects. Iran, the world's third-largest gas producer, shares the giant North Dome/South Pars field with Qatar, but it has fallen far behind in developing its reserves to meet domestic and international gas demand.

"If you compare Iran with neighboring Qatar, a top LNG exporter, sharing the same huge gas reserve, you question why Iran is so far behind in developing its gas assets," said Alex Vatanka, Iran program director at the Washington-based Middle East Institute. The Iranian government decided in the 1990s that pipelines were the future for gas exports and determined that liquefied natural gas projects were too expensive, Vatanka said. Iran focused on pipelines and sent gas to nearby countries like Armenia, Azerbaijan, Iraq, Turkey and Turkmenistan, setting back its potential for LNG exports.

Although Iran remains under international sanctions, work on the Iran LNG facility has resumed. The country is aiming to have the plant, at 10.5 million tonnes annual output capacity, start up by mid-2025. It was abandoned by the government over eight years ago. The facility at Assaluyeh in Iran's southern Bushehr province was completed and reportedly ready for installation of liquefaction units when U.S. sanctions were imposed in 2018, forcing Dublin-based engineering company Linde to withdraw from the project.

Canadian LNG developer wants to maintain license to take U.S. gas

(CBC News; Canada; March 31) - Calgary-based Pieridae Energy is keeping its slender hopes alive for a slimmed-down liquefied natural gas terminal in Nova Scotia. The company has asked the U.S. government for more time to export U.S.-sourced gas into Canada for the project. The deadline to start work expired in February. U.S. gas would supplement the main supply, which would be New Brunswick gas, but that would require the province to lift its fracking moratorium, said Pieridae president Alfred Sorensen.

"Where the project stands is to re-evaluate the size of the project to something less ambitious, but still a significant size at over US$3 billion," Sorenson said. Pieridae did not kill the project because "the province of New Brunswick has shown a renewed interest to potentially develop their gas resources within the province, and we hold a significant land position in New Brunswick. We're looking to see if that ... is something that can happen and you know if this doesn't work then the project is definitely dead."

Pieridae received approval from the U.S. Department of Energy in 2016 to export U.S.-sourced gas via the Maritimes and Northeast pipeline to a proposed LNG terminal in eastern Nova Scotia to sell into Europe. The company has asked for a five-year extension. "We have an interest to maintain our U.S. export license … but it will not be the base-load volume that allows for the final investment decision to occur," Sorensen said, referring to New Brunswick gas as essential to make the project work.

West Texas crude will become part of Brent price index

(Bloomberg; March 30) - After years of wrangling, the world’s most important oil price is about to be transformed for good, allowing crude supplies from West Texas to help determine the price of millions of barrels a day of petroleum transactions. The shift is because the existing benchmark, Dated Brent, is slowly running out of tradable oil for it to remain reliable. As such, its publisher S&P Global Commodity Insights — better known by traders as Platts — has been forced to make a dramatic overhaul.

Its switchover was fraught with controversy and caused a lot of stress among physical oil traders. But it was necessary. BP at one stage said that Dated Brent was subject to “increasingly regular dislocations” — not good for producers, buyers and traders that need stability and consistency. The future of Dated is now set. From cargoes for June onward, West Texas Intermediate Midland — oil from the Permian Basin — will become one of a handful of grades that set the Dated benchmark.

Dated, as it’s commonly known by traders, helps to set the price of about two-thirds of the world’s oil and even defines the price of some gas deals. Oil producers will often sell their barrels at small premiums or discounts to Dated, so the precise mechanics of how it is formed matter to them. In addition, the benchmark lies at the center of a complex web of derivatives, ultimately shaping Brent oil futures that get traded on exchanges. Dated affects a host of oil prices, so even crude in Dubai could feel the effects.

Spain wants more scrutiny of ship-to-ship oil transfers off its coast

(Reuters; March 31) - Spain has called for tighter scrutiny of oil transfers involving tankers at sea as the number of unregulated ships hit by sanctions grows and raises pollution risks, a U.N. agency session heard this week. Hundreds of extra “ghost” tankers have joined this opaque parallel trade over the past few years as a result of rising Iranian oil exports as well as restrictions imposed on Russian energy sales.

The number of incidents last year including groundings, collisions and near misses involving these ships reached the highest in years, a Reuters investigation showed. Spain raised the issue this week at the legal committee of the U.N. shipping agency, the International Maritime Organization, and submitted a resolution to “address the consequences and concerns” over the increase in such operations, a Spanish transport ministry source told Reuters on March 31.

Spain’s Mediterranean and Atlantic coastlines have become hubs for shipping activity including the transfer of oil at sea in ship-to-ship operations. Madrid, which has tightened its rules for oil transfers around its coastline, has called for flag states to step up their scrutiny and enforcement of such activity, the source added.