Oil and Gas News Briefs
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Oil production cutback illustrates 'Saudi First' economic policy

(Wall Street Journal; April 3) - An oil production cut by Saudi Arabia and its allies demonstrated how Crown Prince Mohammed bin Salman is willing to set aside U.S. concerns to pursue a nationalist energy policy aimed at funding an expensive makeover of his kingdom. This weekend's move came as a surprise after Saudi Energy Minister Prince Abdulaziz bin Salman told industry analysts privately in February that the kingdom would tolerate oil prices slipping to around $65 or $70 a barrel.

Brent crude, the international benchmark, was trending down since late last year on global recession fears, nearing $70 last month. On April 3, prices posted their steepest one-day increase in over a year, up 6.3% to $84.93 a barrel. It's the second time in less than six months that the Saudis have disregarded U.S. concerns that higher oil prices would help Russia — despite significant potential ramifications on the relationship.

The April 2 production cut is the clearest signal yet that the Saudis will do whatever it takes to keep oil prices at levels that benefit them. Prince Mohammed is implementing what analysts label a "Saudi First" economic policy, giving priority to national interests at a time of growing uncertainty about the U.S. commitment to defend its Mideast allies.

Officials and others familiar with Saudi oil policy say Riyadh's move wasn't a surprise, as it needs to defend higher prices to pay for massive development projects at home. In recent months, Saudi economic advisers have privately warned senior policy makers that the kingdom needs elevated oil prices for the next five years to keep spending billions of dollars on projects that have so far attracted meager investment from abroad.

Multiple reasons for OPEC+ decision to cut oil production

(Reuters; April 3) - Here are some of the reasons why OPEC+ is cutting oil production again: Saudi Arabia has said the latest cutbacks on top of existing cuts were made as a precautionary measure aimed at supporting market stability — meaning higher prices. Russian Deputy Prime Minister Alexander Novak said the Western banking crisis was one of the reasons behind the cut, as well as "interference with market dynamics," a Russian expression to describe Western price caps on Russian oil.

Fears of a fresh banking crisis over the past month have led investors to sell out of risk assets such as commodities, with oil prices falling to near $70 per barrel from near an all-time high of $139 in March 2022. A global recession could lead to lower oil prices —

not something OPEC+ wants to see. However, Redburn research said the size of the latest cut was probably overdone unless OPEC fears a major global recession.

The cut will also punish oil short sellers or those who bet on oil price declines. Back in 2020, Saudi Energy Minister Prince Abdulaziz bin Salman warned traders against betting heavily in the oil market, saying he would try to make the market jumpy and promising that those who gamble on the oil price would be "ouching like hell." The new round of cuts will hurt traders who gambled on lower prices. "The latest cut would hurt those who bet against oil really badly," said a source familiar with OPEC+ thinking.

Exxon ends disappointing exploration campaign offshore Brazil

(Wall Street Journal; April 5) - ExxonMobil has ended a major campaign to find oil in Brazil, after coming up empty-handed on a multibillion-dollar wager that produced a series of disappointing wells, according to people familiar with the matter. After failing for the third time to find commercially viable amounts of crude in Brazil's deep waters last year, the oil giant has stopped its current drilling efforts in the offshore acreage it started snapping up with partners for $4 billion in 2017, these people said.

The company has shifted geologists and engineers who had worked on the yearslong drilling campaign from its offices in Rio de Janeiro to other countries including Guyana, Angola and Canada, they said. It hasn't put out tenders to drilling contractors for exploratory work there in the year since its last active rig contract expired in April 2022, analysts said, and it skipped Brazil's latest offshore auction in December. Exxon's moves to dismantle its recent drilling campaign in Brazil mark a major setback in a country that it has promoted for years as a key source of growth.

In December, Exxon CEO Darren Woods pointed to Brazil as one of its major "growth opportunities" and part of its portfolio of low-cost supply developments, alongside Guyana, the Permian Basin of West Texas and New Mexico, and exports of liquefied natural gas. Exxon re-entered Brazil six years ago, with high hopes it could repeat the successes other drillers had in offshore formations more than a decade ago. In 2021, Exxon drilled two wells in the Campos and Santos basins. Last year, it drilled a third in the Sergipe-Alagoas basin. None of the wells had enough oil to be commercially viable.

Kazakhstan takes oil producers to arbitration over billions in costs

(Bloomberg; April 4) - The companies operating two major oil fields in Kazakhstan are being taken to arbitration by the government, with billions of dollars of revenue at stake amid allegations of unapproved spending, according to people familiar with the matter. The government is claiming that partners in the projects should not deduct costs totaling $13 billion for Kashagan and $3.5 billion for Karachaganak, the people said, asking not to be named because the information is private. If the state succeeds, it could receive a greater share of revenue from the fields under terms of production-sharing agreements.

Arbitrators were appointed by the government in March to oversee the Kashagan and Karachaganak cases in Geneva and Stockholm, respectively, sources said. The companies haven't appointed their arbitrators, the people said. The claim covers the period from 2010-2018 for Kashagan, and 2010-2019 for Karachaganak, the people said. The cases include allegations that the companies violated tender procedures at both projects, and failed to deliver full works by contractors at Kashagan, sources said.

Kazakhstan President Kassym-Jomart Tokayev is seeking to boost the economy after deadly riots in January 2022. As well as obtaining more revenue from arbitration, his government aims to change the tender systems used by ventures to make generate more revenue for local companies, the people said. In Kashagan, companies have invested more than $50 billion, with Shell, ExxonMobil, state-run KazMunayGas National Co., Eni and TotalEnergies the main partners. The Karachaganak partners, led by Shell and Eni, have invested at least $27 billion in the development.

U.S. natural gas prices continue falling as production at record high

(Reuters; April 3) - U.S. natural gas prices last week plunged to a 30-month low, crossing below $2 per million Btu for the second time this year, even as some producers have cut drilling to stave off further convulsions. Since the start of the year, U.S. gas futures have collapsed by about 50%, a record drop for a quarter, on rising output and mostly mild weather this winter that kept heating demand low and allowed utilities to leave more gas in storage than usual.

Meanwhile, there is little chance of stopping U.S. production from continuing to grow. In addition, the amount of gas in U.S. storage sits about 21% higher than is normal for this time of year, and that surplus will set up U.S. inventories to reach record highs before next winter's heating season. Big gas producers including Chesapeake Energy and Comstock Resources are reducing their drilling. But gas that comes up with oil will continue to rise in the biggest shale fields, and oil producers are not cutting back.

"About a third of U.S. gas production is associated gas — produced from oil wells," said Jacques Rousseau, of research firm ClearView Energy Partners. "This production is unlikely to decline given current oil prices." The Permian Basin of Texas and New Mexico, the nation's biggest shale field, is hitting record highs in oil output this year, according to U.S. Energy Information Administration data. Gas from the Permian also has climbed to record highs this year. Total U.S. gas production remains on track to hit 100.67 billion cubic feet per day this year, up from last year's record 98.09 bcf a day.

China’s boost in domestic gas production cuts into LNG imports

(Reuters columnist; April 2) - China’s liquefied natural gas imports fell sharply in 2022 because of the disruption caused by lockdowns to control the coronavirus epidemic and the massive exit wave of infections when they were lifted. As the epidemic fades, resurgent manufacturing and service sector activity will increase gas consumption and is likely to tighten LNG supplies available to Europe ahead of winter 2023-2024.

But the import rebound could be smaller than some analysts anticipate because China’s domestic gas production is rising strongly and the country has mostly completed its transition to natural gas for urban residents. China’s LNG imports fell by 16 million tonnes (down 20%) in 2022 compared with 2021, according to data from the General Administration of Customs. It was only the second time since 2006, when the country began importing LNG, that imports have fallen compared with the prior year.

China’s LNG buyers are price-sensitive and will likely wait for prices to decline before increasing imports and refilling storage. Even when imports accelerate, the rebound may be shallow because the country is attempting to diversify its supply by increasing domestic production and imports of pipeline gas. China’s domestic production increased by 9 million tonnes (up 6%) in 2022 compared with 2021 in response to high prices and government policies. Reduced LNG imports also were partially replaced by an additional 4 million tonnes (up 9%) of pipeline gas from Russia and Central Asia.

Qatar takes large stake in Exxon-led exploration offshore Canada

(Natural Gas Intelligence; April 3) - Qatar’s state-owned energy producer is looking to Eastern Canada to build exploration prospects after taking sizable stakes in ExxonMobil’s Newfoundland and Canada offshore acreage. QatarEnergy agreed to join ExxonMobil Canada in developing exploration licenses in the deep waters offshore Eastern Canada. While the area is not known as a gas-rich basin, the global liquefied natural gas leader has for years worked to capture opportunities beyond its borders.

The latest agreement, said QatarEnergy CEO Saad Sherida Al-Kaabi, is designed “to further grow our offshore Atlantic Canada portfolio as part of our international growth drive, and we look forward to continue working within Canada’s transparent and stable regulatory environment.” The Canada-Newfoundland and Labrador Offshore Petroleum Board, Al-Kaabi said, “has been very supportive of this process,” and QatarEnergy is planning “a successful exploration campaign with our partners.”

Under the agreement, QatarEnergy gained a 28% interest in one license area, “where the Gale exploration well and associated activities are planned,” executives said. ExxonMobil operates the license with a 50% stake, with Calgary-based Cenovus Energy a 22% stakeholder. QatarEnergy also gained a 40% working interest in another license in which ExxonMobil controls 60%. Financial details were not disclosed. The two licenses cover a total of almost 2,400 square miles.

Canadian chamber report blames government for lack of LNG exports

(The Canadian Press; April 2) - As the world struggles to find the balance between a carbon-free future and a present that runs on fossil fuels, Canada could be leveraging its natural gas riches to help fuel both, a new report suggests. The report by the Canadian Chamber of Commerce urges the federal government to get serious about building the infrastructure necessary to fast-track liquefied natural gas exports.

In addition to several measures to develop and promote Canadian gas as a global low-carbon alternative, the report encourages Canada to retool its often convoluted regulatory processes and give Indigenous peoples a greater stake in gas projects. The challenges, the report acknowledges, are myriad. First and foremost is Canada's glaring lack of the necessary infrastructure — pipelines and export terminals, particularly on the East Coast — to get its gas to international markets.

Since 2008, at least 18 LNG export terminals have been proposed, the report says, including 13 in British Columbia, three in Nova Scotia and two in Quebec. Only the Shell-led LNG Canada project in Kitimat, B.C., is under construction. The report blames a "lack of decisiveness" on energy policy over the past 20 years. "Had Canada supported the construction of even a fraction of these terminals, it would have been at the center of support for growing Asian and European markets that are in desperate need of LNG, and would be actively contributing to the displacement of coal."

European Union proposes ban on Russian LNG

(High North News; April 3) - After sanctioning the import of most pipeline gas from Russia, the European Union is now beginning to target the flow of Russian LNG into the bloc. EU member states increased consumption of Russian Arctic LNG by 50% since the beginning of sanctions. A new proposal would allow EU member states to block the import of LNG. During a meeting of EU energy ministers last week, the bloc discussed new measures to curb, if not outright ban, the import of Russian LNG into Europe. The vast majority of Russian LNG to Europe originates from Novatek's Yamal LNG plant.

Rather than relying on sanctions — which would require unanimity among all 27 member states — the EU wants to clear the way for individual states to block Russian companies from utilizing LNG import infrastructure. The proposed regulatory rules, however, will have to pass through the EU Parliament.

The efforts come just a few weeks after the EU energy commissioner urged member states to stop importing LNG from Russia. The U.K., a former member of the EU, already implemented such a step earlier this year. In 2022, EU countries received around 13.6 million tonnes of Russian LNG, compared to 9.4 million tonnes in each of the two previous years. And the growth trend continues unabated in 2023. During a 10-day period at the end of March and early April, Europe received 10 deliveries from Novatek's Yamal LNG plant in the Arctic.

Philippines will receive first-ever imported LNG cargo this month

(Reuters; April 3) - The Philippines has bought its first-ever liquefied natural gas cargo, which will be delivered this month, bound for a new terminal that will fuel a 1,200-megawatt power plant, global energy trader Vitol said on April 3. Vitol Asia, a supply and trading unit of Vitol Group, will send the cargo to San Miguel Global Power Holdings from its global portfolio, Vitol said in a statement. It did not disclose volume and price.

Faced with declining output from its Malampaya gas field, the Philippines is the newest LNG buyer in the region as it seeks alternative fuel supply for existing gas-fired power plants producing more than 3,000 megawatts. "This is a significant milestone and we look forward to bringing more LNG supply from around the world to meet the rising gas demand of the Philippines," said Vitol Asia president Mike Muller.

The Ilijan plant in Batangas province, 88 miles south of Manila, is among several power-generation assets of San Miguel Global, a unit of Philippine conglomerate San Miguel Corp. Ilijan's power output is expected to significantly augment the country's generation capacity in the face of rapidly increasing post-pandemic demand, Vitol said. The new import facility will be the first to come online among seven LNG terminal projects approved by the Philippine government. It will have annual capacity of 5 million tonnes.

Japan plans major boost in hydrogen supply chain

(Reuters; April 4) - Japan is to revise its hydrogen strategy by the end of May, with an ambitious target to boost annual supply to 12 million tonnes by 2040, the industry ministry said on April 4, as competition increases in the global market for the fuel. Japanese Prime Minister Fumio Kishida on April 4 addressed a ministerial meeting on the need to revise the country's hydrogen strategy, which was first mapped out in 2017, and accelerate the development of supply chains.

Citing massive hydrogen investment by the U.S. and Europe, Kishida said Japan will speed up the rollout of supply chains in cooperation with Australia, the Middle East and Asia. The resource-poor country will also advance the development of domestic regulation and support, Kishida said. The industry ministry aims to complete the new plans in about two months' time, including for investment of 15 trillion yen ($113 billion) over 15 years in the public and private sectors as it aims to lead in setting global standards for the cleaner fuel, an official at the ministry told reporters.

Japan's goal is to boost annual hydrogen supply to about 3 million tonnes in 2030 from 2 million tonnes now, which is mainly used by oil refiners, and to expand it to 20 million tonnes in 2050, the ministry said. Hydrogen has been touted as a clean alternative to fossil fuels and major industries, including steel and chemicals, which are looking at how to switch to hydrogen to reduce carbon emissions. Hydrogen’s carbon footprint depends on the energy source used to produce it using electrolysis to split water.

Marathon reaches deal to extend life of Africa LNG project

(Natural Gas Intelligence; April 5) - Marathon Oil, a Chevron subsidiary and the Republic of Equatorial Guinea have inked an agreement to increase natural gas and condensate exports from the EG Regional Gas Mega Hub. The first phase of the collaborative project has been operating since early 2021, when gas from the offshore Alen field began being delivered and processed at the Punta Europa facility on an island just offshore the western Africa nation under a tolling and profit-sharing agreement.

Gas from the field between Equatorial Guinea’s Bioko Island and the territorial waters of Cameroon is processed at the hub that includes a liquefied petroleum plant and a liquefied natural gas plant that can produce 3.7 million tonnes per year. Under the agreement, the project partners would work to reorganize the contractual terms for gas processed from the Alba field starting next year. The partners also agreed to advance a connection to the Aseng gas field southwest of Alen as part of a third phase.

Marathon Oil CEO Lee Tillman said the agreement would extend the life of the LNG facility. Marathon has a majority interest in the LNG plant and is joined by Marubeni, Mitsui and state-owned Sociedad Nacional de Gas de Guinea Ecuatorial, aka Sonagas. It also holds a 52% interest in the liquid petroleum processing facility at Punta Europa. Chevron also holds an interest in the assets.

Japanese oil and gas explorer submits plan for Indonesia LNG project

(Reuters; April 4) - Japan's Inpex Corp. said on April 4 that it has submitted a revised development plan to Indonesian government authorities for the Abadi liquefied natural gas project, incorporating a carbon capture and storage component. Japan's biggest oil and gas explorer submitted the revised plan of development on behalf of its joint venture with Shell after amending it to include plans to neutralize all carbon dioxide emitted from production at the Abadi gas field through CCS.

Indonesia upstream oil and gas regulator SKK Migas is reviewing the revision to the development plan. Inpex expects to sequentially resume activities associated with the project, including various on-site activities, with an aim to reach a final investment decision in the latter half of the 2020s and commence production in the early 2030s. Abadi would be Inpex's second self-operated, large-scale LNG project after the Ichthys LNG project in Australia. Ichthys started operations in 2018.

The Indonesian project's annual LNG production volume is expected to reach 9.5 million tonnes at its peak, equivalent to more than 10% of Japan's annual LNG imports, according to Inpex. Indonesia has long sought an investor to take over Shell's 35% stake in what is also known as the Masela gas project after the company announced its intention to withdraw. Inpex leads the project with a 65% stake.

German insurers renew coverage for damaged gas pipeline

(Reuters; April 4) - German insurers Allianz and Munich Re have renewed coverage for the damaged Russia-controlled Nord Stream 1 gas pipeline, five sources with knowledge of the matter said, indicating that its future revival has not been ruled out after an alleged sabotage attack. Insurance by two of Germany's biggest companies is critical for any long-term future of the pipeline, which was the main route for Russian gas to Europe for a decade before the blast last September.

The insurance stands in contrast to Germany's public stance of severing ties with Moscow, but one of the five sources said the German government had not opposed the insurance coverage. Most Western investors have written off their stakes in the pipeline. Russia has a 51% stake in Nord Stream 1 through a subsidiary of state-owned energy group Gazprom. Some of Nord Stream's German shareholders favor at least preserving the damaged pipeline in case relations with Moscow improve, two sources said.

Having insurance would also facilitate any repair work needed to resume gas supplies under the Baltic Sea to Europe. While the import of Russian crude oil and oil products is banned under European Union sanctions, Russian gas imports are allowed. The West, however, is trying to find alternatives. In September 2022, several unexplained underwater explosions ruptured the Nord Stream 1 and newly built Nord Stream 2 pipelines that link Russia and Germany under the Baltic Sea.

Oil and companies taking a new look a geothermal projects

(Wall Street Journal; April 4) - Geothermal has the worst of both worlds — the exploratory risk of oil and gas and the low-return profile of solar and wind. What is in it for the energy industry? Chevron, which divested its geothermal business in 2017, is dipping its toes back in through pilot projects or early stage exploration in California, Japan and Indonesia. Others exploring geothermal include BP, Shell, Continental Resources, Chesapeake Energy and Murphy Oil.

While the scale of their investment is small, their interest seems to have helped warm up the geothermal technology space. More geothermal start-ups were launched over the past 18 months or so than in the past decade combined, according to a study published in January by a group of Texas university researchers. While few of the emerging technologies have hit the commercialization stage, the industry is at the "cutting edge of some breakthroughs," said Amanda Kolker, geoscientist and geothermal program manager at National Renewable Energy Laboratory.

The oil-and-gas industry has always been a natural fit for geothermal, which taps heat under the Earth's surface. Like fossil fuels, searching for a good geothermal resource involves subsurface risk. Barbara Harrison, vice president of offsets and emerging businesses at Chevron New Energies, said the company's focus is on new geothermal technology, including enhanced geothermal systems. The technology uses hydraulic fracking to open up pathways through which pumped fluids can be heated underground. Novel technologies would allow geothermal to be available in more places.

World's largest coal mining company sets production record

(Reuters; March 31) - Coal India Ltd. said on March 31 that it had breached its annual production target of 700 million tonnes — the first time it had surpassed its goal since the fiscal year that ended in March 2006. The world's largest coal-mining company will likely end the fiscal year on March 31 with an output of 703.4 million tonnes, it said, 13% higher than the 622.6 million tonnes it produced the previous fiscal year.

"The volume increase of a whopping 81 million tonnes in a single year, by fiscal year 2023 end, would be a historic high since the company's inception," the company said in a statement. Coal India last achieved its production target in 2006, when it produced 343.4 million tonnes. The miner, which accounts for 80% of India's annual coal output, is targeting production of 780 million tonnes in the upcoming fiscal year, in a bid to fuel its power utilities which are expected to burn about 8% more coal in the year.

India's coal-fired power output has increased faster than any other country in the Asia Pacific since Russia's war on Ukraine, underscoring the challenges the world's third-largest greenhouse gas emitter faces in weaning its economy off carbon. Coal accounts for nearly 75% of India's power generation, and utilities account for more than 75% of its coal use. India is the world's second-largest producer, consumer and importer of coal.

New campaign comes out against LNG-fueled ships

(TradeWinds; April 4) - A new global campaign called “Say No To LNG” has been launched to draw attention to what it says is the “greenwashing” of the fuel for ships and to draw attention to the fuel’s methane emissions. Global campaign director Elissama Menezes said the focus on LNG is being presented as a “transition or green fuel” and part of a decarbonization strategy. But that is “an incomplete narrative,” she said.

While LNG may emit less carbon dioxide it emits a more harmful greenhouse gas — methane — that will have a more damaging environmental effect in the short term. The group, which comprises a global network of environmental and climate advocates, highlights the International Maritime Organization’s fourth greenhouse gas study from 2020, which states that with no international regulations, methane emissions from LNG-fueled ships increased by 150% between 2012 and 2018.

In a statement, the campaign group said: “LNG is a dangerous climate pollutant that poses risks to nature, public safety and health.” It adds, “Say No To LNG is imploring the shipping sector and policymakers to urgently rule out LNG from all shipping decarbonization pathways.” Instead of shipowners signing up for LNG-fueled vessels, Menezes said the campaign group wants them to employ operational measures to save fuel and to invest in research and development.