

Oil and Gas News Briefs

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Global spending on solar power expected to surpass oil this year

(Wall Street Journal; May 25) - Investments in solar power are on course to overtake spending on oil production for the first time, the foremost example of a widening gap between renewable-energy funding and stagnating fossil fuel industries, according to the head of the International Energy Agency. More than \$1 billion a day is expected to be invested in solar power this year, which is higher than total spending expected for new upstream oil projects, the IEA said in its annual World Energy Investment report.

Spending on clean-energy projects — which includes renewable energy, electric vehicles, low-carbon hydrogen and battery storage, among other things — is rising at a “striking” rate and vastly outpacing spending on traditional fossil fuels, Fatih Birol, IEA executive director, said in an interview. He pointed to a “powerful alignment of major factors,” driving clean-energy spending higher. This includes mushrooming government spending aimed at driving adherence to global climate targets.

A total of \$2.8 trillion will be invested in global energy this year, of which \$1.7 trillion, or more than 60%, will go toward clean energy. The figure marks a sharp increase from previous years and highlights the growing divergence between clean-energy spending and traditional fossil fuel industries such as oil, gas and coal. Five years ago, spending between the two was broadly equal. “A new clean global energy economy is emerging,” Birol told The Wall Street Journal. “There has been a substantial increase in a short period of time — I would consider this to be a dramatic shift.”

Debt ceiling deal clears the way to complete controversial gas line

(S&P Global; May 29) - The debt limit agreement reached between House Republican leaders and the White House would ratify federal permits for the 304-mile, 2-billion-cubic-foot-per-day Mountain Valley Pipeline, likely clearing the path for the long-delayed gas project to advance this year — provided Congress approves the bill. The agreement between President Joe Biden and House Speaker Kevin McCarthy was released late May 28, with a House vote expected on the bill to lift the U.S. debt ceiling on May 31.

The bill declares that Congress finds timely completion of the line is in the national interest, and states that Congress “hereby ratifies and approves” all federal permits and authorizations. It directs agencies, including the Army Corps of Engineers and Federal Energy Regulatory Commission, to issue all permits needed for construction and initial operation. The project, which would move Appalachian gas to Mid-Atlantic markets, has

faced setbacks in the 4th U.S. Circuit Court of Appeals, which has repeatedly found fault with federal permits on endangered species, national forest crossings, and wetland and stream crossings, amid multiple challenges from environmental groups.

Adding to the troubles, the U.S. Court of Appeals for the D.C. Circuit on May 26 said FERC needed to better explain why it did not perform a supplemental environmental review of the project over sedimentation problems before allowing construction to resume. The bill would rein in the role of the courts, freeing the pipeline from a recurring loop of litigation setbacks after permits are reissued. It states that no court shall have judicial review of those federal permits. Gary Kruse, managing director of Arbo, said the bill would enable completion of the pipeline by the end of 2023 or the beginning of 2024.

Russia's continued oil production undermines Saudi strategy

(Wall Street Journal; May 27) - Tensions are rising between Saudi Arabia and Russia as Moscow keeps pumping huge volumes of cheaper crude into the market, undermining Riyadh's efforts to bolster energy prices, people familiar with the matter say. Saudi Arabia, the de facto leader of the Organization of the Petroleum Exporting Countries, has expressed its anger to Russia for not following through fully on its pledge to throttle production in response to Western sanctions, the people said.

The friction is apparent between the world's two biggest oil exporters ahead of a crucial meeting between members of OPEC and a group of Russia-led producers, collectively known as OPEC+, in Vienna on June 4. The cartel is set to decide on a production plan for the second half of the year amid growing concerns about a slowing global economy crimping energy demand. Earlier this week, the Saudi energy minister warned oil speculators that a further production cut was on the table amid worries over the latest buildup in short positions and Russia's failure to meet its promised voluntary cuts.

The OPEC+ meeting comes after Saudi Arabia, Russia and other OPEC+ members in April said they would reduce output in a move intended to prop up oil prices. Moscow at the time said it would extend unilateral curbs that took effect in March through to the end of the year. Now, the latest available data indicates that Russia continues to pump large volumes of oil into the market, maximizing income for its beleaguered economy but adding to a global surplus, industry officials and traders say. Oil prices are down about 10% from where they stood in early April despite the Saudi-led intervention.

Russian oil shipments are rising, despite claim of production cut

(Bloomberg; May 26) - Wherever you look outside of Russia, there is little sign of the oil production cut that the government says is underway. For Russia's allies in OPEC+, who have committed to cutting their own output to prop up oil prices, the fact the country

isn't withdrawing supplies from the global market may be a source of frustration. Shipments of Russian crude beyond the country's borders are rising, not falling, even as the country is supposedly almost three months into a 500,000-barrel-a-day output cut, made in retaliation for sanctions and price caps imposed by Group of Seven nations.

Crude shipments from Russian ports in the four weeks to May 21 were more than 480,000 barrels a day higher than during the four weeks to Feb. 26, according to vessel tracking data monitored by Bloomberg. February was the baseline month for the Russian production cut. The same pattern is seen in Russian crude flows by analytics company Kpler. Its data show an increase of about 320,000 barrels a day over the same period. Either way, flows aren't falling. Instead, shipments during the most recent period are up by more than 1 million barrels a day from the final four weeks of last year.

China's oil demand sets new record; about 16% of global total

(Energy Intelligence; May 26) - China's apparent oil demand topped 16 million barrels per day in April, setting a new all-time high just a month after it broke through the 15-million-barrel mark for the first time. The surge came as refiners took advantage of healthy domestic refining margins, which have been bolstered by imports of cheap Russian crude feedstock. China's oil demand rose by 5% from March to 16.06 million barrels per day in April, Energy Intelligence calculates, about 16% of global demand.

April demand also showed an increase of 26.1% over April 2022, when demand crashed amid a strict two-month COVID-19 lockdown in Shanghai — a city of 25 million people. Disappointing economic data for April has prompted concerns that China's post-pandemic rebound may have already hit a ceiling. But in terms of oil demand, April was a bullish month, with demand for all of the main categories of refined products rising.

China's fuel oil imports hit a 10-year high of 592,000 barrels per day as small independent "teapot" refiners imported large volumes of discounted heavy fuel oil feedstock from Russia. Industry sources say they complemented those purchases with substantial imports of Russian naphtha to blend and lighten the fuel oil feedstock. China imports Russian fuel oil and naphtha directly, but small industry players have also increased their imports of these two products via Singapore and Malaysia.

China and India take more crude from Russia, Iran and Venezuela

(Bloomberg; May 24) - The global oil map is being redrawn as the long-run impact of Western sanctions channels more barrels from Russia to Asia's largest economies, with China also taking crude from Iran and Venezuela. China and India took more than 30% of their combined imports from the three nations in April, according to data tracked by

intelligence firm Kpler. That's up from just 12% in February 2022, the month Russia invaded Ukraine. In turn, exports from traditional suppliers are being squeezed.

Flows to China and India from West Africa and the U.S. have collapsed by more than 40% and 35%, respectively. "Clearly Asian buyers are the winners here for cheap oil costs," said Wang Nengquan, a former economist at Sinochem Energy Co. who's worked in the oil industry for more than three decades. In recent months, Asia, led by India, has become Russia's biggest trading partner, which has essentially helped Moscow to restore its oil exports to normality, according to Wang.

The reshaping of flows testifies to the flux in the world's most important commodity market, where global demand runs at about 100 million barrels a day, with growth led by India and China. "Within Asia, almost 90% of Russia's exports now go to these two," Andreas Economou, Bassam Fattouh and Ahmed Mehdi wrote in a research report for The Oxford Institute for Energy Studies, referring to India and China. Crude from Russia comes with steep discounts to global benchmarks.

Report questions whether world is building too many LNG tankers

(The Straits Times; Singapore; May 25) - The world could be facing a glut of giant liquefied natural gas tankers set to be built this decade as nations shift away from fossil fuels to reach global temperature goals, a report published on May 25 said. The tankers could become stranded assets, causing large losses for shipbuilders and owners that are hoping to cash in on a surge in new LNG production capacity coming online before 2030 and Europe's dash for gas triggered by the war in Ukraine, the report said.

Shipbuilders in South Korea, where many LNG tankers are built, could be badly hit by an expected LNG glut and waning demand, said the report by Climate Analytics, a Berlin-based climate think tank, and Solutions for Our Climate, a South Korean climate and energy advocacy group. A number of nations, including Qatar and the U.S., are building large amounts of new LNG production capacity that some analysts say will not be needed. Europe's new appetite for LNG is expected to be temporary, some say, as energy efficiency, green-energy investment and the shift to electrification curb gas use.

The International Energy Agency said in its 2022 energy outlook that the momentum behind natural gas growth in developing economies had slowed, notably in South and Southeast Asia. There were about 700 tankers in the global LNG fleet as of the end of 2021, according to the report. A further 34 LNG carriers were added in 2022 and another 335 LNG carriers were set to be delivered between 2023 and 2028.

U.K. succeeds in going without any Russian LNG for past 12 months

(Bloomberg; May 25) - Britain imported no natural gas from Russia in the past 12 months, a sharp contrast with other European countries that are still reliant on the fuel, particularly liquefied natural gas, which helps to fund Moscow's war on Ukraine. Record renewable energy production, which accounted for 46% of the U.K.'s electricity output in the past three months, was a key factor in reaching the milestone, the Department for Business, Energy and Industrial Strategy said in a statement.

While the U.K. has stayed away from Russian imports, much of Europe is still relying on the country's fuel, especially LNG shipments. The steady supply of the seaborne cargoes has helped energy costs drop across Europe including Britain, with benchmark gas prices now less than 10% of last year's record high.

While the U.K. banned Russian ships from its ports last year, no global sanctions have been imposed on Russia LNG and only a handful of nations banned the trade since the war on Ukraine. Still, calls to seek alternative suppliers have intensified in Europe. The Dutch government is working on ending LNG imports from Russia, while Spain, the biggest European buyer of Russia LNG, is urging importers not to sign new contracts.

Low LNG prices could lead to canceled U.S. cargoes

(Bloomberg; May 26) - As global liquefied natural gas prices nosedive, traders are bracing for the possibility that U.S. cargoes will be canceled in the coming months. Asian LNG spot prices are down more than 85% from last year's record highs, falling to lows not seen since May 2021. European gas prices have slumped 70% over the past year. Traders gathered at an annual energy fair in Essen, Germany, this week debated whether slumping prices and lackluster demand could trigger a supply-side response.

If prices fall further, it may not make economic sense to export LNG from the U.S. — a reversal of the situation a year ago, when prices hit record highs following Russia's invasion of Ukraine. The market is "not that far from U.S. LNG cargo cancellations," said Gyorgy Vargha, CEO at Swiss trader MET International. Should steep price declines continue, then by September — when European storage sites are full — companies contracted for U.S. cargoes may cancel scheduled shipments to avoid massive losses.

This hasn't happened since 2020 when cargoes were canceled and millions of dollars in penalties were paid by contractually obligated off-takers at the export terminals. The impact could be significant — with gas trapped in the U.S., domestic prices could crash. Current price spreads to Europe and Asia still show wide enough margins to justify U.S. cargoes. BloombergNEF data shows that U.S. LNG is in the money through November, based on global spreads. Traders in Europe and Asia said prices need to fall below \$5 per million Btu before scrapping U.S. deliveries. Prices are now about \$9.

Low spot LNG prices attract buyers in emerging markets

(Bloomberg; May 26) - Countries from Asia to Latin America are snapping up liquefied natural gas cargoes as prices slump, helping replace more polluting fuels while easing pressures on their economies. LNG prices have dipped below fuel oil, encouraging its use in power generation. From Thailand and Bangladesh to Colombia, emerging markets were the biggest buyers in the spot market for a second straight quarter earlier this year. Vietnam and the Philippines recently bought their first-ever LNG shipments.

That's a sharp turnaround from last year when many governments were struggling to ensure energy supply. Soaring prices helped drive inflation and forced poorer nations to turn to more polluting coal or fuel oil. While they're now getting a chance to repair their economies, the gas purchases are also providing LNG producers with a safety net by partly offsetting weak demand from heavyweights in Europe and North Asia.

Many developing nations have power plants that can burn either fuel oil or LNG, said Chris Strong, a partner at law firm Vinson & Elkins in London, who specializes in energy transactions. That gives them flexibility to react to spot gas prices dropping below \$10 per million Btu, and comes just in time for heavier electricity demand as summer heat sweeps across Asia. Producers, however, will be wary of leaning too heavily on this demand. It may not be enough to overshadow potential long-term weakness in regions such as Europe. Many governments are pushing for renewables in an effort to tackle climate change, calling for reduced gas use.

Russia says it will start year-round Northern Sea Route shipping

(High North News; May 24) - Just two years after liquefied natural gas carriers conducted the first trial winter voyages along the Northern Sea Route, Russian gas producer Novatek is set to begin year-round shipping along the Arctic seaway early next year. During an extensive government briefing on the NSR and Arctic development, the head of Rosatom — the operator of Russia's expansive nuclear-powered icebreaker fleet — announced the milestone to President Vladimir Putin.

The development of the NSR has been a priority for Russia and a personal project of Putin for much of the past decade. Year-round shipping on the route represents a key milestone in Russia's goal to boost sixfold its cargoes along the route by 2030. Novatek has been working toward year-round shipping of LNG to Asia for the past five years since production at its Yamal plant began at the end of 2017. Currently, the company sends its gas almost exclusively to Europe during the winter months.

With talks of a potential ban on Russian LNG by the European Union, the ability to send its gas to customers in Asia year-round may soon become indispensable for Novatek. Development of the NSR has proven critical for Russia's ability to re-route the flow of hydrocarbon exports away from Europe and toward Asia. However, the growing flow of

crude along the route has raised alarm bells among environmental groups, as a cleanup of oil in Arctic waters following any spills is considered to be nearly impossible.

Producer plans to close once prolific North Sea oil field

(S&P Global; May 26) - TotalEnergies said May 26 it was considering "various options" for transporting oil that feeds the U.K.'s flagship Brent crude blend after plans were announced for the closure of the Ninian oil field and associated infrastructure used by various operators in the area. Canadian Natural Resources has announced its intention to halt Ninian operations, heralding an end to one of the North Sea's most prolific fields and raising questions over the Ninian pipeline, one of two major pipelines used to send Brent-branded crude to the Sullom Voe terminal in the Shetland Islands for loading.

Explaining its decision, Canadian Natural Resources echoed the dissatisfaction of a number of North Sea operators at the U.K. business environment, which features a 75% tax rate on revenues following the introduction of an "energy profits levy" in 2022. The company cited "prevailing regulatory and economic conditions" and an "increasingly challenging commercial outlook in the U.K.," saying Ninian was no longer "economic." The closure decision raises questions for other producers that depend on the Ninian platform and 108-mile Ninian pipeline as a conduit for getting their oil to Sullom Voe.

Ninian continues to produce for the time being, but its output dwindled to 6,500 barrels per day in 2022, having reached peaks of several hundred thousand barrels a day in past decades. It has produced more than 1.2 billion barrels of crude and is one of a number of fields that supplemented output from the Brent oil field to make up the Brent blend, synonymous with North Sea production and price benchmark.

Conoco buys full control of oil sands operation in Alberta

(Bloomberg; May 26) - ConocoPhillips exercised its right to acquire TotalEnergies' 50% stake in the Surmont oil sands field for as much as US\$3.33 billion, giving it full control of the Alberta operation and thwarting efforts by Suncor Energy to buy into the site. The transaction is expected to close in the second half of the year and will be funded with cash and short- and medium-term financing, or a combination of those options. Houston-based ConocoPhillips said on May 26.

Taking full control of Surmont's low-cost production helps ConocoPhillips CEO Ryan Lance meet a commitment to return US\$11 billion in cash to shareholders this year by letting the company generate free cash flow at even lower crude prices. ConocoPhillips projected the purchase would add about US\$600 million of annual free cash flow next year, assuming a benchmark U.S. oil price of US\$60 a barrel.

“They are thinking about returns and free cash flow and being stewards of capital and putting shareholders first,” Phil Skolnick, an analyst at Eight Capital, said in an interview. Surmont is “a very good project,” he said. Oil is produced at Surmont, located in northeastern Alberta, by injecting steam into underground wells to force the region’s heavy bitumen to the surface. Surmont is the fourth-largest oil sands site in Canada, producing about 135,000 barrels a day in April.

Company announces plans to build new refinery in Oklahoma

(The Oklahoman; May 24) - A Texas company is set to build a \$5.6 billion “next generation” refinery in Cushing, Oklahoma, which will be one the country’s largest, processing 250,000 barrels of light crude daily. Southern Rock Energy Partners revealed May 24 it selected Cushing as the site for a full-scale conversion refinery that will feature several green-energy features — use of solar power and recycled water and a 90% reduction in emissions associated with existing refineries.

Cushing, with a population of 8,200, is known as the “pipeline crossroads of the world,” with more than 430 oil storage tanks spread out along the southern and northern edges of town. Cushing, which sits about 70 miles northeast of Oklahoma City, was once home to 53 refineries, but the last one was closed by Kerr McGee in 1987.

Steven Ward, managing director at Southern Rock, said the refinery will produce gasoline, diesel and jet fuel from crudes from the Anadarko, Permian, Denver and Julesburg and Bakken basins. The refinery will process light crude, which is more plentiful than when older refineries were built, due to the emergence of shale crude. The current configuration of refineries in the U.S. were designed to process heavier crudes produced in Venezuela, Saudi Arabia and Mexico. The project will be constructed over a 36-month period beginning in 2024, with commercial operations beginning in 2027.

Japanese shipbuilders plan liquefied carbon dioxide tanker

(gCaptain; May 23) - In response to the increasing demand for transporting carbon dioxide — pegged to the growth of carbon capture and storage projects — a group of Japan’s shipbuilders has announced a new venture to develop an oceangoing liquefied carbon dioxide (LCO₂) tanker. The group consists of Mitsubishi Shipbuilding and Nihon Shipyard, a Tokyo-based joint venture between Imabari Shipbuilding and Japan Marine United. Together, they will embark on a collaborative study for development of a large-scale, oceangoing LCO₂ carrier.

The demand for LCO₂ transportation is expected to grow alongside the emergence of carbon capture and storage projects, which involve securely storing captured CO₂ underground. The number CCS projects in development is increasing with the growing

support of national governments, particularly in Asia following the lead of the European Union. As a result, the partners believe establishing a robust shipbuilding infrastructure in Japan to meet the demand for LCO₂ carriers is crucial.

Construction of the LCO₂ test ship is planned at Nihon Shipyard, with potential delivery estimated for 2027. The project will capitalize on Mitsubishi Shipbuilding's expertise and advanced gas-handling technology from designing and constructing liquefied gas carriers, such as liquefied petroleum gas and liquefied natural gas carriers.

Former U.S. whaling port sees future in offshore wind development

(Associated Press; May 25) - New Bedford, Massachusetts, was once the city that lit the world, exporting vast quantities of whale oil for lamps in the early 1800s. Workers packed the docks, unloading casks of oil that had been extracted at sea from whale carcasses and brought in by a fleet of hundreds of whaling ships. Nearly two centuries later, New Bedford aspires to light the world again, in a different relationship with the sea, as the offshore wind industry arrives here.

On May 24, a ship bringing wind turbine tower sections from Portugal reached the Port of New Bedford. Once assembled out on the water this summer by developer Vineyard Wind, the turbines will stand more than 850 feet high. It's a milestone for the industry. The United States does not yet have a single commercial-scale offshore wind farm — but it will soon. Vineyard Wind is building a 62-turbine wind farm 15 miles off the coast. It's expected to put out 800 megawatts, enough electricity to power more than 400,000 homes, beginning later this year.

The U.S. is decades behind Europe, where the world's first offshore wind farm was erected in 1991. The first U.S. wind farm was supposed to be a project off the coast of Massachusetts known as Cape Wind, but it failed after years of litigation and local opposition. New Bedford in 2015 opened the first U.S. port facility specifically designed for offshore wind, to become a hub for the industry. Now construction is happening all around the port, more than at any time since the whaling industry, the mayor said.