

Oil and Gas News Briefs

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World Bank forecasts \$81 oil in 2024 — unless conflict expands

(Reuters; Oct. 30) - The World Bank said on Oct. 30 it expected global oil prices to average \$90 a barrel in the fourth quarter of this year and fall to an average of \$81 in 2024 as slowing growth eases demand, but warned that an escalation of the latest Middle East conflict could spike prices significantly higher. The World Bank's latest Commodity Markets Outlook report noted that oil prices have risen only about 6% since the start of the Israel-Hamas war.

The report outlines three risk scenarios based on historical episodes involving regional conflicts since the 1970s, with increasing severity and consequences. A "small disruption" scenario equivalent to the reduction in oil output seen during the Libyan civil war in 2011 of about 500,000 to 2 million barrels per day would drive oil prices up to a range of \$93 to \$102 a barrel in the fourth quarter of this year, the bank said.

A "medium disruption" scenario — roughly equivalent to the Iraq war in 2003 — would cut global oil supplies by 3 million to 5 million barrels per day, pushing prices to between \$109 and \$121 per barrel. The World Bank's "large disruption" scenario approximates the impact of the 1973 Arab oil embargo, shrinking the global oil supply by 6 million to 8 million barrels per day. This would initially drive up prices to \$140 to \$157 a barrel.

China expected to drive hard bargain for a second Russian gas line

(Reuters; Oct. 30) - Russia is counting on a planned new pipeline to China as it seeks to make up for lost gas sales in Europe, but industry insiders see major risks around the project and question whether it will justify the costs. Russia has been in talks for years about building the Power of Siberia 2 to carry almost 1.8 trillion cubic feet of gas a year from Russia's Arctic Yamal region to China via Mongolia — almost as much as the now idle Nord Stream 1 line under the Baltic Sea that was damaged by explosions last year.

The plan has gained urgency as Moscow aims to double its gas exports to energy-hungry China to make up for the collapse of its exports to Europe following the war in Ukraine. But agreement on key issues including pricing remains elusive. China's President Xi Jinping told Russian President Vladimir Putin in Beijing this month that he hoped the China-Mongolia-Russia gas pipeline will make substantive progress as soon as possible, yet nothing has been formally agreed between the two countries.

Russia currently exports gas to China through the Power of Siberia 1 line, which began operating in 2019 and runs into northeast China. Experts say China is not expected to need additional gas supply until after 2030, and that Beijing could drive a hard bargain on price for a second pipeline. Moscow has not said how much the 1,616-mile Power of Siberia 2 would cost or how it would be financed. Some analysts have put the cost at up to \$13.6 billion. Russia said in March that gas giant Gazprom, which will operate Power of Siberia 2, was finalizing contract terms with China's top oil and gas major CNPC.

China may lose out on Venezuelan oil under easing of U.S. sanctions

(S&P Global; Oct. 30) - Asia may have little to cheer following the lifting of sanctions on Venezuelan oil, as increased competition for those Latin American cargoes could make it difficult for buyers like China and India to get cargoes from the supplier, prompting them to look at the Middle East to fill the vacuum, analysts and sources said. China's independent refiners have remained active buyers of Venezuelan crude in recent years, despite sanctions.

For the Shandong-based independent refiners, it has been relatively easy to buy those barrels in the absence of many other takers. But it may not be the case anymore. "U.S. oil companies are now allowed to begin to explore and advance investment in Venezuela. Of more immediate relevance is U.S. oil refiners will now be able to buy oil directly from PDVSA. This may lead to less Venezuelan crude going to China — where it is used to pay back debt — and more to the U.S. to generate cash," said Ha Nguyen, executive director for global crude oil markets at S&P Global Commodity Insights.

Earlier this month, the U.S. eased sanctions on Venezuela for a six-month period, which could be renewed if the Maduro government follows through on its political and electoral commitments. China's independent refineries took about 360,000 barrels per day of crude and 110,000 barrels per day of fuel oil from Venezuela in September, the month when the country's crude production averaged 770,000 barrels per day, S&P Global data showed. "Chinese independent refiners will find it difficult to source Venezuelan crude as exclusively as they did before," a Singapore-based crude trader said.

U.S. Energy Department slow on LNG export authorizations

(Reuters; Oct. 30) - U.S. Department of Energy reviews for liquefied natural gas export permits have lengthened under President Joe Biden's administration to 11 months or more, from seven weeks, according to government data. The delay could mean nearly completed projects without an export permit may not be able to supply all European buyers. Some U.S. industries oppose more LNG exports, fearing it could raise domestic prices, while environmental groups raise concerns about expansion of fossil fuel use.

The average time for issuing an export license for supplying the gas to some of the biggest buyers of U.S. LNG — non-free trade agreement (FTA) countries — has climbed under the Biden administration to over 330 days from 155 days under the Obama administration and 49 days under the Trump administration, according to DOE data. One project, Commonwealth LNG, has been waiting a year for an export permit after receiving its environmental approval for an export terminal in Louisiana.

Commonwealth hopes to start construction in the third quarter 2024, with preliminary deals for the sale of 5 million tonnes per year, mainly to non-FTA countries. “There are many factors that can affect the amount of time the U.S. Department of Energy needs to review an application, including the issues raised by interveners in any specific proceeding,” a spokesperson said. Non-FTA countries are the biggest buyers of U.S. LNG. The Biden administration's DOE has slowed decisions for economic, political and environmental reasons, said Alex Munton, an LNG analyst at Rapidan Group.

Final pipeline segment set in place to feed LNG Canada project

(Bloomberg; Oct. 30) - TC Energy has welded the last stretch of the Coastal GasLink pipeline into place, adding to signs that a huge facility to export liquefied natural gas off Canada’s West Coast is on track to start up on time, or even early. All of the pipes along the 416-mile route through northern British Columbia have been connected — with the so-called “golden weld” occurring on Oct. 7 — as well as coated, lowered into trenches and hydro tested, Calgary-based TC Energy said Oct. 30. The next stage involves additional documentation and engineering analysis before natural gas is introduced.

The development adds to growing excitement in the Canadian energy industry about construction at the LNG project that the pipeline will feed. LNG Canada — backed by Shell, Mitsubishi, Korea Gas, Petronas and PetroChina — has been billed as the single largest private-sector investment in Canadian history and a way for the country’s gas producers to ship their output to new markets where they can garner higher prices. The line, however, has far exceeded its original estimate. What was initially expected to be a C\$6.2 billion project was estimated at C\$14.5 billion in February by TC Energy.

“Based on everything that we’re hearing and seeing, LNG Canada may start taking some test gas volumes by the middle of next year,” RBN Energy managing director Martin King said in an interview before the Coastal GasLink announcement. That would be earlier than the “middle of the decade” timeline LNG Canada has publicly provided, he said. “There’s a palpable sense in the gas business that we’re going to actually have a real, viable outlet for Canadian gas exports other than the United States,” he said.

Japanese LNG buyer writes in support of Louisiana project

(S&P Global; Oct. 30) - Japan's Kyushu Electric Power is in talks over a long-term LNG contract tied to Energy Transfer's proposed Lake Charles export project in Louisiana, according to a recent filing at the U.S. Department of Energy. Kyushu President and CEO Kazuhiro Ikebe disclosed the talks in a letter dated Oct. 24 to the department that said the Japanese utility is also considering an equity investment in the project.

Ikebe said in the letter that the long-term LNG purchases and equity investment will have the backing of Japan's Ministry of Economy, Trade and Industry if "the LNG export to Japan is approved and Energy Transfer reaches [a] final investment decision" on Lake Charles. The letter from the top executive was among dozens submitted to DOE in support of Energy Transfer's application for a new export license for Lake Charles.

Ikebe's letter did not discuss terms of a potential deal, including the volume of LNG. Energy Transfer submitted a new export application in August, after DOE in April rejected the developer's request for a three-year extension of a previous authorization to export from the project, which is planned at 16.5 million tonnes per year production capacity. Without a commitment to start construction the company is unable to meet the in-service deadline, and failing to win an extension it needed to start over with DOE.

U.S. shale gas producer strikes deal with global trader

(LNG Prime; Oct. 31) – Shale gas producer Chesapeake Energy has signed a heads of agreement with Geneva-based global trader Vitol to supply liquefied natural gas from a liquefaction and export plant in the U.S. Under the 15-year deal that starts in 2028, Chesapeake will supply up to 1 million tonnes of LNG per year to Vitol with the price indexed to the Japan Korea Marker, a widely used index of prices in Asia. Chesapeake and Vitol will jointly select the "most optimal liquefaction facility in the U.S." to liquefy the gas produced by Chesapeake for delivery to Vitol, according to Chesapeake.

In March, Chesapeake signed a similar 15-year deal with Geneva-based trader Gunvor. Under that deal, Chesapeake will supply up to 2 million tonnes of LNG per year to Gunvor with the price indexed to the same Asia price marker. Chesapeake and Gunvor later signed a non-binding deal with Texas-based Energy Transfer related to long-term LNG offtake from the latter's proposed Lake Charles LNG export facility in Louisiana. Chesapeake is one of the largest gas producers in the U.S.

Indonesia says it could have excess LNG cargoes in 2026

(Reuters; Oct. 31) - Indonesia says it could have nearly 70 uncommitted cargoes of liquefied natural gas in 2026, energy ministry official Tutuka Ariadji said on Oct. 31, as a number of gas export projects around the world are expected to come online in the

coming years. “There are still relatively large number of uncommitted LNG cargoes from 2026 onward, with a peak estimated in 2030,” Tutuka told an online energy seminar.

Indonesia’s upstream oil and gas regulator (SKK Migas) is seeking buyers for the cargoes, an official said at the same event, while authorities are developing domestic industries to use more gas. Indonesia will build petrochemical industries to absorb the excess gas and produce ammonia and methanol among others, the official said.

Industry, Alaska’s political leaders dispute federal oil lease changes

(Bloomberg; Oct. 30) - A century after the U.S. set aside a broad swath of northwest Alaska to be used as an emergency oil supply, the Biden administration is pursuing changes that could make it impossible to pump crude from new leases. The proposal for managing the National Petroleum Reserve-Alaska has alarmed oil industry advocates who say it would thwart development in a crude-rich region the size of Indiana.

Alaska’s congressional delegation said the Biden administration is “suddenly and dramatically reinterpreting the law so that it can treat 13.1 million acres” of the reserve “as de facto federal wilderness.” A top ConocoPhillips executive said the changes stoke uncertainty about future oil projects and infrastructure across the region. The Interior Department argues a new framework is needed to balance development with environmental protections, as the approach was last substantially updated in the 1980s.

It seeks to “raise the bar for development” in response to rapid warming in the region and accelerating degradation of the permafrost, the agency said. The proposal would expand safeguards for current and future “special areas” across NPR-A. At least once every five years, federal regulators would be required to designate new special areas for maximum protection because of wildlife, scenic or other values. Those designations could not be undone unless the special values — wildlife, for instance — disappeared.

Oil industry concern has focused on provisions directing the government to presume oil leasing and infrastructure development “should not be permitted” even in areas of the reserve open for that activity unless there is specific information clearly demonstrating the work can be done with “no or minimal adverse effects” on the habitat.

Guyana gets a new U.S. partner as it confronts oil wealth

(Forbes; Oct. 29) - On Oct. 23, Chevron announced its acquisition of Hess for \$53 billion. Its most prized asset: the Stabroek offshore oil block, near the coast of Guyana. The area has become the epicenter of a new oil boom, as industry giants scramble for a cut in the action. In the past decade, more than 11 billion barrels of conventional oil and gas have been discovered. Rival ExxonMobil had already made a landing in Guyana,

which is producing 400,000 barrels per day with partners Hess and China National Offshore Oil Corp. The two U.S. oil giants will now be partners after the acquisition.

The recent discoveries have already started to have an outsized effect on Guyana, which was once one of South America's poorest countries. It remains to be seen to what extent wealth will "trickle down," or if the booming economy will mostly be a godsend for the U.S. and Chinese producers. In future years, an unequal outcome could see a movement of resource nationalists, as is common in neighboring nations. Suriname and Venezuela tell warning stories — their overreliance on oil led to economic collapse.

According to World Bank and International Monetary Fund data, Suriname suffered a GDP per capita drop of about 60% from 2014 to 2020. In Venezuela, it was mixed with political conflict and U.S. sanctions, and the peak-to-trough fall of 2013-2020 was near 70%. "Guyana should clearly avoid falling into the trap ... as it is seeing a sudden massive inflow of money," said José Chalhoub, political and oil consultant at Venergy Global. "It will also have to assess the important geopolitical risks of having important diverse oil companies from contesting countries like the U.S. and China."

U.K. energy company eyes offshore gas field for carbon storage

(Bloomberg; Oct. 28) - Centrica boss Chris O'Shea is on a mission to show the U.K. government that it needs to rapidly speed up carbon capture projects, which could become crucial if the country is to reach its net-zero emissions ambitions. The company's aging Morecambe gas field, off the west coast of England, was not selected for a support program this summer that's backed by billions of pounds of government funding. Even after that disappointment, the energy business still plans to start burying carbon emissions from its own gas processing site nearby in early 2025.

Centrica's idea is to prove the viability and then fully commercialize the operation, selling carbon storage services to other industries. That'll require about £1 billion (\$1.2 billion) of investment, as well as government backing which O'Shea said isn't moving fast enough. Carbon capture and storage (CCS) involves collecting CO₂ emissions, transporting them, usually to an old oil or gas field, and burying them. It's controversial, with critics saying it can help extend the life of fossil fuels that should be winding down. It's also expensive, and there's a risk of environmental damage from storage leakage.

Centrica's CCS plans are centered on Morecambe in the Irish Sea. The company currently expects to continue production until the end of the decade. The platforms there are inextricably linked to the era of dirty energy that the world is trying to put behind it. But carbon storage, once it comes online, will give the facilities a new function. The plan for Morecambe looks straightforward. Gas will continue to flow and be brought onshore for processing. Then, rather than venting the CO₂, a pipeline will bring it back offshore in a "closed loop system" that allows simultaneous injection and extraction.

Rising costs jeopardize wind-power projects in U.S.

(Wall Street Journal; Oct. 31) - Soaring costs are pushing up the price of big U.S. wind-power projects, challenging the country's shift to renewable energy and potentially leading to larger-than-expected bills for residents. New York state officials in recent days unveiled a slate of wind-farm proposals that would result in higher electricity rates for residents than under previously approved plans. That has companies behind older bids rushing to see if they can resubmit their plans at or near the new rate.

The New York projects are among the country's biggest and are being closely watched because they show how a nascent industry that is key to the U.S. energy transition will work through the upheaval of escalating costs for equipment, materials, labor and financing rates. The struggles are threatening delays in the current list of projects, which analysts say could hamper the Biden administration's offshore wind ambitions.

Some firms have already eaten multimillion-dollar termination fees to pull out of East Coast projects or written down investments because of rising costs. Analysts say New York's attempt to find new price points acceptable to developers, regulators and investors suggests the adjustment won't be easy. "Does the market have the courage to kind of pay these higher prices for clean energy?" David Hardy, CEO of energy firm Ørsted Americas, said at a conference in New York last month. Ratepayers would ultimately be the ones ponying up, he said. "The question is: What's the alternative?"

Japanese companies sign on for joint study of hydrogen use

(Offshore Energy; Oct. 30) - Japanese company Mitsui has signed an agreement with the Fukui prefectural government and Hokuriku Electric Power to conduct a joint feasibility study on the development of a hydrogen and ammonia supply chain using a floating storage and regasification unit at the port of Tsuruga. The study has been selected for a subsidy under a Ministry of Economy, Trade and Industry plan to promote better understanding of structural advancement and transitioning in the energy sector.

At a co-creation council hosted by the Japanese government, it was decided that efforts should be pointed toward consolidation and industrialization of hydrogen and ammonia use within the region. The meeting also called for efforts to make the port the main location for offloading and supply facilities, especially the storage tanks and pipelines.

The purpose of the joint study by Mitsui and its partners centers on development of a hydrogen/ammonia supply chain at the Tsuruga port, including the introduction of ammonia supply, the utilization of ammonia and the use of hydrogen to generate power for cargo handling equipment. Fukui prefecture will examine the introduction of hydrogen-based power generation, while Hokuriku Electric Power will investigate the utilization of ammonia. Mitsui will coordinate a study related to the floating unit.

Critics say blue hydrogen is not a clean fuel

(CNBC; Oct. 31) – The U.S. Department of Energy recently approved seven regional hydrogen hubs for \$7 billion in federal funding intended to spur the development of “clean” hydrogen. Hydrogen, if produced in a way that does not generate copious greenhouse gas emissions, could be a critical tool to decarbonize challenging industries like heavy shipping. Of the hubs, two plan to use renewable energy exclusively. The others will use a mix of renewables, nuclear and gas with carbon capture and storage.

Making hydrogen from natural gas with carbon capture — called “blue hydrogen” in the industry — is not necessarily a climate boondoggle. “There are methane leakage risks — so climate risks, air pollution risks. Because of that, we were quite disappointed to see such overreliance on blue hydrogen in the hubs,” Rachel Fakhry, hydrogen policy lead for the Natural Resources Defense Council, said.

When hydrogen is burned or used in a fuel cell to generate electricity, water is the only byproduct. Generating energy from hydrogen this way does not create carbon dioxide, one of the primary greenhouse gases that causes global warming. Hydrogen in nature mostly exists attached to other atoms, so producing pure hydrogen to use in any decarbonization solutions requires splitting molecules. The climate impact of splitting those molecules to produce pure hydrogen varies dramatically.

Hydrogen can be made by splitting water with a lot of electricity and a machine called an electrolyzer. If the electricity that runs that electrolyzer comes from sources that do not emit any greenhouse gas emissions, like wind turbines or solar farms, the hydrogen can be beneficial from a climate perspective. At the same time, making hydrogen with an electrolyzer powered by electricity from coal or other fossil fuels is not “clean.”