Oil and Gas News Briefs
Compiled by Larry Persily
November 6, 2023

Saudi Arabia and Russia extend oil output cuts through December

(Bloomberg; Nov. 5) - Saudi Arabia and Russia reaffirmed that they will stick with oil supply curbs totaling about 1.3 million barrels a day until the end of the year, even as turmoil in the Middle East roils global markets. The two leaders of the OPEC+ coalition announced the plans in separate statements on Nov. 5. Riyadh has slashed daily crude production by 1 million barrels per day, and Moscow is curbing its exports by 300,000 barrels a day, on top of earlier cuts with fellow OPEC+ nations to help boost prices.

Saudi Arabia will review its output volumes next month and consider "extending the cut, deepening the cut or increasing production," according to a statement. Russia's Deputy Prime Minister Alexander Novak echoed the Saudi comments on production policy in a separate statement. Oil prices have fluctuated in recent weeks on concern that the fighting between Israel and Hamas could escalate into a wider regional conflagration involving major crude producer Iran. Brent futures closed below $85 a barrel on Nov. 3.

A broader Mideast conflict could prompt the Saudis and Russia to revise their planned production cuts, according to the International Energy Agency, which has warned of the risks that high fuel prices pose for inflation and the global economy. Yet for now, OPEC and its partners seem intent on keeping supplies on a tight leash. The Saudis may need oil prices as high as $100 per barrel, according to Bloomberg Economics, to fund expensive projects such the futuristic city known as Neom. President Vladimir Putin, meanwhile, needs strong petroleum revenues to finance his war against Ukraine.

U.S. oil output set record in August, passing pre-pandemic numbers

(Reuters; Nov. 1) - U.S. oil and gas production has continued to rise as companies squeeze more from each well despite a fall in the number of rigs employed, with the industry boosting efficiency to offset the impact of lower prices. Crude and condensate production rose to a record 13.1 million barrels per day in August, surpassing the previous peak of 13 million set in November 2019 before the COVID-19 pandemic.

Output from the Lower 48 states excluding federal waters in the Gulf of Mexico increased to a record 10.8 million barrels per day, according to the U.S. Energy Information Administration. Lower 48 output was up by 955,000 compared with a year earlier. Production has continued rising even though prices have retreated from the highs reached in mid- 2022 in the immediate aftermath of Russia's invasion of Ukraine.

Shale producers have also tried to eke out extra output by concentrating rigs on only the most promising well sites and boring much longer laterals. Longer horizontal sections ensure each well is in contact with more reservoir rock, bringing more oil to the surface and boosting productivity per well. Increased efficiency has kept U.S. production on an upward trend even as Saudi Arabia and its allies in OPEC+ have trimmed their output to support prices. It is likely U.S. output would have peaked in the third quarter and started to turn down if OPEC+ had not boosted prices and thrown a lifeline to the shale sector.

U.S. investors see acquisition potential in Canadian oil and gas

(Reuters; Nov. 2) - U.S. corporations and private-equity firms are increasingly eyeing Canadian oil and gas companies for acquisition, drawn by lower valuations, ample fossil fuel reserves and improving market access, according to dealmakers and analysts Companies operating in the huge Montney shale formation, which spans northern Alberta and British Columbia and accounts for roughly half Canada's gas production, are most attractive to potential buyers. Assets located in the smaller Duvernay and Clearwater formations in the same general area are also piquing interest.

Canada is home to the world's third-largest oil reserves, most of it in the form of bitumen in oil sands concentrated in Alberta. Scott Barron, head of Calgary investment banking at TD Securities, said there is far more interest today in the non-oil sands sector of the Canadian energy industry than at any time in the past five or six years. "One of the major driving factors for U.S. companies to consider Canadian acquisitions is that there's the potential for Canadian drilling inventory to be less expensive than what they're seeing in the U.S.," Barron added. He declined to name potential suitors.

Canadian energy companies tend to trade at a discount to U.S. firms partly due to years of constrained market access and congestion on export pipelines, forcing producers to accept significant discounts on their oil and gas. The Shell-led LNG Canada project, slated to begin liquefied natural gas exports by 2025 — primarily sourced from the Montney — will be a boon for the market. An RBC Capital Markets' report characterized the Montney play, which yields about 10 billion cubic feet a day of gas, as a "Canadian champion." An expanded oil line to Canada's West Coast also is nearing completion.

Neither Shell nor BP in megamerger mode like Chevron. Exxon

(Wall Street Journal; Nov. 2) - Oil bosses in Europe are intent on closing the stock market valuation gap with their more valuable American rivals, but this doesn't automatically mean they will follow ExxonMobil and Chevron down the megamerger path. "M&A is not really on our minds, if I'm honest," BP interim boss Murray Auchincloss said on the company's earnings call this week when asked for his reaction to ExxonMobil and Chevron's recent multibillion-dollar spending spree.

With oil at around $90 a barrel, BP thinks it makes sense to exploit the 36 billion barrels already in its portfolio rather than rush out to buy more. The company plans to grow its U.S. production by 7% annually through 2030 but also wants to bulk up on businesses that should do well during the energy transition, such as electric vehicle charging. Shell said it will prioritize running what it already owns as efficiently as possible. CEO Wael Sawan said Shell is better off spending billions of dollars on its own shares right now.

There are reasons why the two European companies carry a lower valuation than their U.S. rivals. Shell and BP are more cautious about long-term demand for oil than their U.S. peers. And Shell and BP shareholders are dubious about the Europeans' clean energy investments. Headlines this week about turmoil in U.S. offshore wind won't help to boost confidence in renewables., BP took a $540 million impairment on its New York wind farm projects. And shares in Danish wind-farm developer Orsted tanked more than 20% on Nov. 1 after it halted two U.S. projects that no longer make sense financially.

U.S. coal exports to Europe jump 22% after Russia is shut out

(U.S. Energy Information Administration; Nov. 2) - U.S. coal exports increased by 5.7 million short tons in the 12 months after European Union sanctions on coal from Russia went into full effect in August 2022. The increase was driven almost exclusively by a 22% jump in U.S. coal exports to Europe between August 2022 and July 2023, compared to the same period prior to the sanctions August 2021 to July 2022.

In 2021, Europe bought about one-third of Russia's total coal exports. After Russia's full-scale invasion of Ukraine in February 2022, the EU responded by imposing sanctions on coal from Russia. Once a ban on European buyers purchasing coal from Russia went into full effect in early August 2022, imports of coal from Russia into Europe fell to almost nothing. The U.S. joined other coal-supplying countries, including South Africa and Colombia, to make up the difference.

As a swing, or higher-cost, supplier in global steam coal (power plant fuel) markets, the United States was positioned to shift exports to Europe. U.S. steam coal is a comparable quality to that produced by Russia, making it a natural substitute. Both countries have premium-quality bituminous coal with a high heating value.

U.S. LNG exports near record high in October

(Reuters; Nov. 1) - U.S. liquefied natural gas producers ramped up exports in October to 7.92 million tonnes, according to data provider LSEG, the second-highest monthly level on record. Exports were just shy of the record 8.01 million tonnes in April this year, and were up from 7.12 million tonnes in September, when plant maintenance reduced U.S.

production. The U.S. was the world's largest exporter of LNG in the first half of this year, according to the U.S. Energy Information Administration, ahead of Qatar and Australia.

Boosting U.S. LNG production and export capacity, two Gulf Coast plants that will add a combined 38 million tonnes per year aim to begin production next year. Europe remained the principal buyer of U.S. LNG last month, with an 8 percentage point rise to 60% of all U.S. LNG exports. Asia customers accounted for 20% of exports, down from 30% a month earlier, and Latin America took 5% of cargoes.

Europe has been taking more U.S. gas after Russia cut pipeline supplies and countries shunned its energy exports over its invasion of Ukraine. But underground gas storage facilities in Europe are nearly full and some Asian LNG buyers have "shown reluctance to buy LNG recently," consultancy Rystad Energy said in a note on Nov. 1. Meanwhile, global production output will continue to grow, LNG shipping and brokering firm Poten & Partners said on Oct. 31, noting plants that could generate an additional 100 million tonnes per year are under construction in the U.S., Mexico and Canada.

U.S. steps up sanctions on Russian LNG; impacts on Japan unknown

(Bloomberg; Nov. 3) – U.S. sanctions on a major new Russian liquefied natural gas export plant threatens to pit Japan's energy-security drive against its relationship with Western allies. The U.S. on Nov. 2 imposed the measures on Novatek's Arctic LNG-2 project, which includes Japan's government as an investor and is set to start exports in the coming months. These are the first U.S. sanctions to directly target an LNG export plant in Russia, and companies are still examining the potential impact.

While Japan has slapped restrictions on Russia and banned the import of coal, its government has drawn a line at gas, used to generate about a third of its electricity and heat homes. Japan has few resources of its own and stepped up its efforts to secure LNG after last year's energy crisis. It insists that Russian gas is required to meet its energy needs and last year urged Mitsui and Mitsubishi to hold onto stakes in Russia's Sakhalin-2 LNG facility in the Far East, even as Shell — the biggest foreign shareholder in the plant north of Japan — dropped its holdings after Moscow's war on Ukraine.

The new sanctions on Arctic LNG-2 will test Japan's relationships with other Group of Seven nations, which are taking an increasingly harder line against Russia. Sanctions so far have largely avoided Russian gas, which still goes to Japan and Europe. "This could potentially have a more significant impact compared to previous sanctions," said Kaushal Ramesh, a vice president of LNG and power markets research at Rystad Energy. "This is because it directly targets the operating company."

A consortium of Mitsui and state-owned JOGMEC have a 10% stake in Arctic LNG-2 and will receive 2 million tonnes per year from the facility, equal to roughly 3% of Japan's total contracted long-term supply, according to data from BloombergNEF.

Total reassessing its Russian LNG stake after new U.S. sanctions

(Reuters; Nov. 3) - French oil major TotalEnergies said on Nov. 3 that it was assessing the impact of U.S. sanctions on the Arctic LNG-2 project in Russia, in which it has a direct 10% stake and a total interest of 21.5% via its holding in Russian gas producer and project operator Novatek. In contrast with other oil majors that have cut ties with the country after its invasion of Ukraine, Total has held onto several investments in Russia, including minority stakes in liquefied natural gas projects Yamal LNG and Arctic LNG-2.

Before the latest sanctions imposed by Washington on Nov. 2, Total had said it would honor its gas contracts in Russia as long as there were no sanctions against them. "The consequences of the designation of Arctic LNG-2 as a SDN (special designated nationals) entity by the U.S. authorities on TotalEnergies' contractual commitments to Arctic LNG-2 are currently being assessed," a spokesperson for TotalEnergies said.

The company also said that since March 2022 it had decided to no longer book proved reserves for the Arctic LNG-2 project nor contribute capital to it. The plant is located on the Gydan Peninsula and will have three operational lines with a capacity of 6.6 million tonnes of liquefied natural gas each. Novatek, Russia's largest LNG producer, is the controlling shareholder with a 60% stake and plans to start production by the end of this year and phase in to full operations by 2026.

Sinopec signs up for more LNG from Qatar under new 27-year deal

(Reuters; Nov. 4) - State-owned Chinese firm Sinopec signed a 27-year liquefied natural gas supply and purchase agreement with QatarEnergy, the two companies said Nov. 4. Under the agreement, the companies will cooperate on the second phase of the Gulf state's North Field expansion project. The deal will send 3 million tonnes of LNG a year to Sinopec and adds to Qatar’s recent flurry of new contracts from Europe and Asia.

A partnership agreement was also signed under which QatarEnergy will transfer a 5% interest to Sinopec in a joint-venture company that owns the equivalent of 6 million tonnes per year of LNG production capacity in the North Field South project. The deal, signed at the China International Import Expo in Shanghai, is the third long-term supply deal between Sinopec and QatarEnergy. The two companies signed a 10-year LNG purchase and sales agreement in 2021, followed by a 27-year deal last year.

The North Field is part of the world's largest gas field, which Qatar shares with Iran which calls its share South Pars. The North Field expansion plan includes six LNG trains that will ramp up Qatar's liquefaction capacity to 126 million tonnes per year by 2027 from 77 million.

[U.S. LNG developer warns it is low on cash as it looks for partners]

(Houston Chronicle; Nov. 2) - Tellurian warned investors Nov. 2 about conditions that “raise substantial doubt” about the company’s cash flow as it hunts for equity partners for its long-proposed Driftwood LNG project in Louisiana. The company reported $59.3 million in cash on hand and roughly $23.7 million of accounts receivable as of Sept. 30, it said in a filing with the Securities and Exchange Commission. It said it expected the available cash would be insufficient to fund its capital needs and fulfill its obligations.

“These conditions raise substantial doubt about the company's ability to continue as a going concern within one year after the date that the financial statements are issued,” it said in the filing. The filing is the latest indicator of the Houston company struggling to lure equity partners for the $13.6 billion Driftwood project. The company is pursuing a riskier business model in which it receives the upside — and downside — of prices set by global markets rather than relying on a traditional model where LNG producers sign 15- or 20-year contracts with buyers that pay a fixed price for the processing of the gas.

CEO Octávio Simões said Nov. 2 in an earnings statement that the company continues to pursue potential partners and customers. “We are having a number of discussions with counterparties for both equity partnership and liquefied natural gas,” he said. The company said it has invested more than $1 billion in the Driftwood project.

[U.S. Energy Department has questions for Mexico LNG export project]

(Reuters; Nov. 1) - The U.S. Department of Energy has warned New Fortress Energy that if any portion of its Altamira floating liquefied natural gas project is located onshore Mexico, the company will have to resubmit its application for a permit to export U.S. gas through the facility. New Fortress's $1.3 billion Altamira LNG project was expected to start shipping gas this month under an export permit issued in June. If the company must reapply for a U.S. export permit, it could further delay the two-phase project.

New Fortress has proposed LNG projects that use converted offshore oil production rigs. Altamira was originally designed with two facilities — Fast LNG1 on converted oil platforms and Fast LNG2 on three fixed platforms. The entire project is set to be Mexico's first producing and exporting LNG facility. It would use U.S.-sourced gas.

"If the project site and design have been modified such that FLNG2 will be located onshore in Mexico instead of offshore, Altamira is required ... to request an amendment of its order," the department wrote on Oct. 30. New Fortress on Nov. 2 disclosed it is weighing an LNG export facility in Mexico that would be an onshore complement to its offshore project. The configuration requires clarification, the DOE said, since it might not meet the terms of the export license.

British Columbia holds environmental hearings on LNG project

(The Northern View; British Columbia; Nov. 2) - The public comment period on the provincial environmental assessment for a proposed floating natural gas liquefaction facility off the northwest coast of British Columbia is underway. Open houses are planned for Prince Rupert and Terrace next week, as well as a virtual session Nov. 14. The Nsi Lisims LNG project — a partnership between Nisga'a Lisims First Nation, Rockies LNG and Western LNG — intends to export 12 million tonnes of gas a year.

The Rockies and Western partners are consortiums of gas producers looking for an export outlet for their gas. The project would install a floating processing plant and export terminal north of Prince Rupert near the village of Gingolx, near Portland Canal which serves as the border between Canada and Alaska. Gas for the plant would come from northeastern British Columbia and Alberta via one of two gas pipelines that were approved years ago to supply LNG processing projects that were subsequently shelved.

Approval of the facility's environmental assessment certificate is critical to getting one or the other of those two pipelines started as both companies have environmental permits which have already received one-time extensions and are set to expire in 2024 if the companies cannot demonstrate construction has substantially begun.

Shell and Total win trading bets on LNG to Asia, BP loses in Europe

(Reuters; Nov. 3) - Energy giants offered a rare glimpse into their liquefied natural gas trading strategies in recent days, with Shell's and TotalEnergies' bets on rising Asian demand paying off while BP's bet on a European deficit turned sour. The contrasting outcomes highlight the risky nature of trading divisions, at times notching up spectacular profits as traders exploit price swings and supply and demand disruptions around the world to make money, but at other times losses have been just as spectacular.

Companies rarely reveal details on their trading beyond general commentary on their performance, but executives this week shed some light on their performance in the third quarter. Shell and TotalEnergies successfully bet on rising Asian demand for LNG ahead of winter, resulting in strong earnings from trading. BP's focus on Atlantic Basin markets, where demand was muted due to full inventories, led to a drop in trade profits.

"Gas trading was exceptional in the first quarter, exceptional in the second quarter and had a weak quarter in the third quarter," BP interim CEO Murray Auchincloss told Reuters. "Trading organizations make money on volatility. And there was just no volatility," Auchincloss said. The lack of volatility stemmed from high inventory levels in the U.S. and European markets as European buyers stocked up to avoid a repeat of record gas prices last winter after Russia cut off major gas supplies into Europe.

Developers write down value of offshore U.S. wind-power projects

(Wall Street Journal; Nov. 1) - A wave of impairments is sweeping through the U.S. wind-energy sector amid high interest rates, inflation and supply-chain woes, forcing developers to put off projects and casting doubts over the industry's outlook. Governments around the world have set ambitious targets to increase the share of renewables in their energy mixes, but their plans are now under pressure as wind developers face a surge in financing costs.

Orsted, BP and Equinor have collectively written off $4.8 billion against U.S. offshore wind projects in recent days. Danish renewable-energy company Orsted said Oct. 31 that it booked an impairment charge of 28.4 billion Danish kroner, equivalent to $4.02 billion, against its U.S. offshore portfolio and abandoned development of two projects off the coast of New Jersey due to spiraling costs and supplier delays. Orsted previously flagged increasing risks in the U.S., citing the lack of favorable progress on tax credits.

"The industry isn't in a good shape," said Martin Tessier, Stifel's vice president of equity research for utilities and renewables. "I think we'll see a softening of long-term targets … and less projects will be developed in the long term." Project owners usually sign long-term deals outlining terms to sell electricity or secure subsidies before construction starts. Some are now lamenting that these terms don't reflect increased costs and say their projects aren't viable anymore.

Nigeria ready to start up new refinery and begin fuel exports

(Reuters; Nov. 2) - Nigeria's state oil firm NNPC will supply the new 650,000 barrel-per-day Dangote oil refinery with up to six cargoes of crude oil in December to be used in test runs, three industry sources with knowledge of the matter said. The refinery, funded by Africa's richest man, Aliko Dangote, will transform oil trading in the Atlantic Basin and remove a lucrative outlet for fuels produced in Europe and the United States that have for years powered the cars, trucks and generators on the continent.

The refinery is in the Lekki free-trade zone near Lagos. Once it is fully up and running, it will turn oil powerhouse Nigeria into a net exporter of fuels, a long-sought goal for the OPEC member that is currently almost totally reliant on imported fuels. One of the sources, an NNPC official, who declined to be named, specified six cargoes, averaging 200,000 barrels per day, would be supplied in December as part of a one-year deal.

NNPC has a 20% stake in the refinery. The refinery began the commissioning process in May this year after running years behind schedule at a cost of $19 billion, above initial estimates of $12 billion to $14 billion. Commissioning includes testing the units that make fuels from gasoline to diesel and making sure they respond to the control panels.

Germany committed to phase out coal for power generation by 2030

(Bloomberg; Nov. 3) - German Economy Minister Robert Habeck pushed back against doubts that Europe's largest economy can phase out coal by 2030 after ramping up its use in the aftermath of the energy crisis. It is "absolutely" the plan to switch off all coal plants by 2030 — eight years earlier than the current legal date, the Green politician said Nov. 3 in an interview with Bloomberg TV. Earlier this week, his coalition partner Finance Minister Christian Lindner said that until it's clear that energy is available and affordable, "we should end dreams of phasing out coal-fired power in 2030."

The country's three ruling parties agreed in their coalition treaty two years ago to "ideally" exit coal by 2030. However, Germany was among the hardest hit in last year's energy crisis kicked off by Russia's attack on Ukraine, as it had to wean itself off Russian pipeline gas. To ensure sufficient power supply this winter, the country has again ramped up coal generation. Habeck argued old lignite plants will form part of the energy mix for "a little bit longer," but that the installation of several liquefied natural gas import terminals means energy security issues are "more or less solved."

Habeck said that the most important decision toward reaching the 2030 goal had already been made on the European Union level by increasing the cost of emitting carbon dioxide. "That means that the market will solve the problem," he said. "I think past 2030 you won't earn money with coal power plants anymore."

Low water levels in Panama Canal restrict traffic

(Bloomberg; Nov. 3) - The Panama Canal doesn't have enough water. A lack of rainfall, blamed on climate change, is leading to a steady decline in water levels on the vital trade conduit. The problem is so bad that quotas are being imposed on how many ships can pass through it, a move set to snarl trade in energy, consumer goods and food as carriers are forced to sail thousands of extra miles to make deliveries.

Restrictions started this month and will continue through at least February, the canal's managing authority said. By then, trips will be limited to 18 per day, a 50% drop from a year earlier. Excluded vessels will likely alter course to the Suez Canal — adding at least a week to the journey between the U.S. and China — or around the bottom of South America. Such voyages will burn more fuel and lead to higher freight costs. "It's really a disaster playing out in slow motion," said Peter Sand, chief analyst with Oslo-based Xeneta, which analyzes ocean and air freight markets.

"We expect this will drag on for at least another year," Sand said. This October was the driest on record in Panama since record-keeping began in 1950. The level of Gatun Lake, a body of freshwater that vessels navigate on their way through the canal, has dropped to an unprecedented low. Core users include tankers bringing petroleum products — especially liquefied propane — from U.S. refineries to Asia; container ships delivering made-in-China goods to the U.S. Eastern Seaboard; and bulk ships moving millions of tons of grains and other agricultural products.