Oil and Gas News Briefs
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U.S. oil production continues setting new records

(Bloomberg; Oct. 12) - U.S. crude oil production surged to a record during the third quarter and is expected to climb further as the nation increasingly plays a vital role in supplying global markets. U.S. oil production jumped to 13.13 million barrels per day last quarter and is forecast to rise to 13.16 million barrels per day in the fourth quarter, according to the U.S. Energy Information Administration's monthly Short-Term Energy Outlook released Oct. 11. In the past few months, Saudi Arabia and Russia have tightened markets by curbing supplies. The U.S. has routinely exported about 4 million barrels per day to overseas markets, helping to fill the supply gap on a tight market.

Canada's oil production projected to grow 10% next year

(CBC News; Oct. 12) - Canada's oil production is set to jump by about 10% over the next year and become one of the largest sources of increased supply around the world. The country produces about 4.8 million barrels per day of crude and that figure could climb by 500,000 to about 5.3 million barrels by the end of 2024, according to S&P Global Commodity Insights. That would mark an all-time high for Canadian production.

Alberta's oil sands is expected to drive much of the growth, although increases are anticipated throughout Western Canada and at offshore facilities near Newfoundland and Labrador. "Half a million is a lot," said Kevin Birn, S&P's chief analyst for Canadian oil markets. "It's bigger than a lot of countries produce." The sharp rise in output expected over the next 12 to 14 months is partially the result of lower overall production this year, due to lengthy maintenance requirements at some oil sands facilities.

Large oil sands companies are not ramping up their spending to pump more oil out of the ground, said Birn, but rather they are finding ways to make their existing facilities more efficient at full capacity. Still, he cautions that this level of production growth will be short-lived and could flat-line after 2024. "This could be the last really large hurrah before we see a material slowdown in Western Canada supply growth," said Birn. "We do see this plateauing effect really beginning around 2025 and 2026."

North Dakota oil production up to 1.2 million barrels per day

(The Bismarck Tribune, ND; Oct. 12) - North Dakota oil production rose in August, while natural gas production remained steady, the state's top oil regulator said Oct. 12. The state produced an average of nearly 1.2 million barrels of oil per day in August, a 3% rise from July. That's still down from the state's record of 1.52 million barrels per day in pre-pandemic November 2019. Gas production rose by less than 1% in August following a record-breaking month in July. The state's figures lag two months as officials collect and analyze data from energy companies.

State Mineral Resources Director Lynn Helms said a confluence of factors, including possible interest rate hikes, uncertainties about the future of the Dakota Access Pipeline and unrest in the Middle East are creating general uncertainty on prices in the near future. "We've got three big factors that are trying to move oil prices in opposite directions, and if those get out of balance we're going to see some pretty big volatility."

Helms expressed some concern regarding ExxonMobil's nearly $60 billion purchase of Pioneer Natural Resources this week. ExxonMobil subsidiary XTO has the largest well inventory potential in the core area of North Dakota's Bakken oil patch, but has not had a drill rig operating since the COVID-19 pandemic, Helms said. "An acquisition like that, which is Permian-focused, might tend to pull capital away from that core area drilling in North Dakota and lead to really flat to declining production in the core in North Dakota."

OPEC and IEA continue disagreement over oil demand forecasts

(Reuters; Oct. 12) - The gap between two leading oil forecasters' views on 2024 demand growth widened on Oct. 12, with the International Energy Agency predicting a sharper slowdown while producer group OPEC stuck to expectations for buoyant China-led growth. The Organization of the Petroleum-Exporting Countries and the IEA, which represents industrialized countries, have clashed in recent years over issues such as the long-term oil demand outlook and the need for investment in new supplies.

In a monthly report on Oct. 12, the IEA lowered its forecast for growth in oil demand in 2024 to 880,000 barrels per day from 1 million, suggesting harsher global economic conditions and progress on energy efficiency will weigh on consumption. By contrast, OPEC in its latest report stuck to its forecast that demand will rise by 2.25 million barrels per day in 2024. The difference between the two forecasts — 1.37 million — is equivalent to more than 1% of daily world oil consumption.

Oil demand growth can affect prices and costs for consumers and businesses. It also is part of the backdrop for supply decisions by OPEC and its allies, known as OPEC+. "In 2024, solid global economic growth, amid improvements in China, is expected to further boost oil consumption," OPEC said in a monthly report. Both forecasters are on roughly the same page for demand this year. But the IEA said in its report it was seeing signs of demand being hit by rising prices and rising electric vehicle sales.

U.S. awards $7 billion in grants for 7 regional hydrogen hubs

(Wall Street Journal; Oct. 13) - The White House is injecting a gusher of cash into hydrogen production, an undeveloped sector that it is betting will play a pivotal role in the country's shift away from fossil fuels. The administration is awarding $7 billion in grants for seven regional hubs to produce clean hydrogen, a potential substitute for oil and gas in shipping, steelmaking and chemical production, the Energy Department said Oct. 13. Created by the 2021 infrastructure law, the grant program is designed to kick-start production of clean hydrogen in the U.S. as a key part of fighting climate change.

The grants will be given to regional hubs, which include state and local partners as well as hydrogen suppliers, industrial buyers and energy infrastructure companies that will contribute funding to supplement the grants. Most hydrogen today is made by heating gas, which is cheap but emits greenhouse gases — though that can be reduced by carbon capture. Another method splits water to make so-called green hydrogen — with no emissions when made from completely clean power. The latter method is often called the holy grail of climate technologies. But it is still far more expensive to produce.

The Biden administration's hydrogen grants and tax credits are among the richest subsidies in the infrastructure and climate law. Among the regions selected for funding is Appalachia, which was championed by West Virginia Sen. Joe Manchin, one of the main architects of the law and chairman of the Senate's Energy and Natural Resources Committee. Also selected were a hub in California; one called a "heartland" hub in the Dakotas and Minnesota; one based in Texas that serves Gulf Coast states; a Pacific Northwest hub; and one serving Midwest states including Michigan, Illinois and Indiana.

Federal government awards $7 billion to develop U.S. hydrogen hubs

(Bloomberg; Oct. 13) – Hydrogen-hub projects involving Amazon, ExxonMobil and Air Products and Chemicals are among seven ventures receiving portions of $7 billion in U.S. funding meant to make the country a leader in the fuel. One of the recipients, the Port of Philadelphia, would use hydrogen in Pennsylvania, Delaware and New Jersey to fuel trucks and heavy-duty equipment.

The administration is throwing its weight behind the hubs — broad networks of hydrogen producers and consumers spanning multiple states — as part of its goal of reaching net-zero emissions by 2050. While almost no "clean" hydrogen is currently produced in the U.S., the administration effort is aimed at reducing costs — one of the biggest barriers to hydrogen's widespread use — by 80% by 2030.

The Pennsylvania hub will receive up to $750 million in funding and will use existing oil infrastructure to produce hydrogen from renewable and nuclear energy, according to the White House. Partners include refiner PBF Energy and Air Liquide. Other winners are as much as $1.2 billion for a California-based project that will produce hydrogen from renewable energy and biomass, and is aimed at decarbonizing public transportation, heavy-duty trucking and ports. Project partners include Amazon and Air Products.

A hydrogen hub backed by Sen. Joe Manchin spanning parts of West Virginia, Ohio and Pennsylvania, partnering with gas producer EQT, is receiving up to $925 million and will produce hydrogen using gas with carbon capture. A Gulf Coast hub centered in Houston and backed by Exxon and Chevron was awarded as much as $1.2 billion. A proposal by a coalition of Midwest states that would be partially powered by nuclear energy to make hydrogen for uses including steel and glass production was awarded up to $1 billion.

Industrial users bypass LNG suppliers and buy from producers

(Bloomberg; Oct. 13) - Industries from chemicals to utilities that rely on natural gas have a solution to the risk of high costs and supply shocks: Buy liquefied natural gas directly. Companies are starting to source gas straight from producers at a lower cost by cutting out traditional suppliers who market the fuel. Buying LNG directly or setting up trading businesses would be more economical for as many as 45 firms around the world in sectors that also include manufacturing and mining, according to consultant Accenture.

Users have become more dependent on LNG — particularly in Europe — after Russian pipeline flows were cut and prices soared to a record following Moscow's invasion of Ukraine. While markets are now far below their peak, concerns still linger about further price spikes that forced many factories to shut down or relocate. With inflation still high, people are also looking for ways to cut costs.

U.K. chemical producer Ineos Group and Czech power producer CEZ were among those that moved into LNG last year, either through setting up a trading desk or making purchases. German chemical giant BASF recently struck a decades-long deal to buy U.S. LNG. And more companies are considering the move. "Purchasing LNG directly is part of a cost-cutting scheme," said Ogan Kose, a managing director at Accenture.

But moving into LNG can be more complicated. New entrants need access to import terminal capacity, pipelines and tankers, enough credit for expensive cargoes and to know how much to secure on both a short- and long-term basis.

Natural gas markets more at risk of price volatility than oil

(Wall Street Journal; Oct. 13) - The impact of war in Israel on the global economy might be clearer in electricity bills than prices at the pump. The old reflex when tensions rise in the Middle East is to worry about oil. But the bigger price moves this week have been in natural gas markets, which have no Plan B when supply is hit. Brent crude has risen 6% since Hamas attacked Israel Oct. 7 in an assault that killed 1,300 people. Despite its immense human cost, the fighting hasn't had any impact on the global oil supply so far, though that could change if the conflict spreads, especially if Iran gets involved.

Meanwhile, Europe's natural gas benchmark has surged more than 40% this week. The Israeli energy ministry asked Chevron to stop production at the Tamar offshore gas field, west of Haifa, because of the conflict. Also, a gas export pipeline that runs to Egypt close to Gaza has been closed. The shutdowns will have some impact on regional energy balances, and potentially Egypt's exports of liquefied natural gas if they go on for a long time, according to Zongqiang Luo, an analyst at Rystad Energy.

There was also a reminder this week of how vulnerable energy infrastructure is as the world becomes more unstable, when suspected sabotage caused a leak in a Baltic undersea gas pipeline. This has made traders nervous. The world will consume almost 144 trillion cubic feet of natural gas this year, and supply is roughly half-a-perfect more than that. When the market is this finely balanced, even minor glitches can cause big swings. Meaningful new supply isn't expected for another two to three years.

Conflicts put gas markets on edge as winter approaches

(Bloomberg; Oct. 12) - Mounting threats to natural gas supply are sending most global fuel prices higher as fear takes hold of the market just ahead of the first signs of winter. Natural gas prices in Asia and Europe jumped this week, with the latter surging to the highest level in eight months, driven by the Israel-Hamas war, potential strikes at key export plants and infrastructure vulnerabilities, including a leak in a Baltic Sea pipeline between Finland and Estonia, with sabotage suspected.

The multiple risks highlight the fragility of markets, particularly in Europe which is starting its second winter without much of the pipeline gas flows from Russia that it once took for granted. The continent's gas futures price benchmark continued their rally on Oct. 12, adding 15%. The good news is the market is in a much better place now than this time last year. Inventories are high, industrial demand is down, and several new liquefied natural gas import facilities have been added. In addition, some forecasts suggest Europe will have a relatively warm winter, which should reduce gas needs.

But the energy crisis is still far from over, and a cold snap is set to hit Europe in the coming days. Any hint of disruptions to global gas flows could send shockwaves through the market. "Somehow, the risk of something going wrong vastly outweighs the reality that everything has gone right," said Ira Joseph, a global fellow at the Center on Global Energy Policy at Columbia University. "Europe's energy landscape is fraught with challenges," said Leslie Palti-Guzman, head of market intelligence at SynMax, a satellite data analytics company in Houston.

‘It’s not too late’ for Canada to become a major LNG supplier

(Calgary Herald columnist; Oct. 11) - After years of fast-paced growth, global demand for natural gas is forecast to slow down in the next few years, while global LNG supply is expected to race ahead by 2026. A report by the International Energy Agency projects a slowdown in the growth of gas consumed in the world, forecasting it will peak in North America this year before declining next year. Yet, it also highlights the opportunity ahead for countries that are able to export liquefied natural gas, particularly the U.S.

It’s just one more reason Canada needs to ensure it has a firm spot in the global LNG sector. While markets such as Europe and North America are expected to see gas consumption fall over the medium term, higher demand is anticipated in Asia, Africa and the Middle East. The IEA forecasts LNG supply will increase by 25% around the world by 2026. The U.S. will make up about half of all that incremental supply, cementing its position as the world’s largest and fastest-growing gas exporter.

For Canada, LNG also represents an opportunity. Though it is the world’s fifth-largest gas producer, Canada has yet to see one LNG project completed — though that is about to change. The LNG Canada development in Kitimat, British Columbia, led by Shell, is expected to begin operating as early as 2025. “What is Canada doing wrong? We’re moving too slowly,” Enbridge CEO Greg Ebel said. “It’s not too late,” said Dulles Wang, director of Americas Gas and LNG research at Wood Mackenzie. “The growth in the LNG market will continue well into the 2040s — and if we can get projects started or off the ground by the early 2030s, there is definitely still time for these LNG projects.”

Rising prices prompt North Asia buyers to pause LNG purchases

(Bloomberg; Oct. 13) - Liquefied natural gas buyers in North Asia are pausing plans to buy additional fuel for winter after the conflict between Israel and Hamas compounded supply risks, boosting global prices. Following a jump in European prices, Asian spot LNG shipments are being offered in the range of the high-$10s per million Btu, according to traders. That is the highest price in about eight months.

Prices have rallied as the Israel-Hamas war threatens to embroil the Mideast, home to major gas exporters and chokepoints. Meanwhile, the market is monitoring discussions between Chevron and Australian workers unions to avoid LNG strikes that are set to begin next week. LNG buyers in Asia are waiting for prices to fall before they book more shipments for winter, when demand for the heating fuel peaks, as they are currently sitting on comfortable inventories, traders said. The run-up in prices reflects supply concerns that may not materialize, and don’t reflect a jump in buying, they added.

Growing demand drives up gas storage prices on U.S. Gulf Coast

(S&P Global; Oct. 13) - Growing intermittent demand for natural gas along the U.S. Gulf Coast is fueling something of a renaissance in the salt dome storage market as LNG exporters, power generators and pipeline operators bid up prices for the region's most flexible storage injection and withdrawal capacity. Earlier this month, storage owner and operator Enstor was among the latest to enter the fray, announcing a non-binding open season to solicit bids for a proposed expansion of its three-cavern Mississippi Hub, which already has capacity to store more than 22 billion cubic feet of gas.

As part of its expansion project, Enstor is proposing to construct, own and operate three additional gas storage caverns, each with about 10 bcf of working gas capacity. Enstor's proposed expansion comes amid rising prices for storage capacity, especially in salt domes, and follows a spate of storage projects and asset deals announced in recent years. For veterans of the gas industry, the renewed interest in storage is reminiscent of the late 2000s — something of a golden era for the industry when a major buildout of storage capacity took place, just before the advent of shale gas production.

Over the past several years, storage contracts have lengthened as buyers compete for capacity. According to Peter Abt, senior vice president of origination at Enstor, the development of new salt cavern storage requires longer-term contracts of seven to 10 years, since many banks won't finance projects supported by shorter-term leases which had become common until more recently. Now, many interested buyers, especially in the Gulf Coast market, are willing to pay up and sign significantly longer-term contracts.

New LNG-fueled ship will deliver coal to Japanese power plants

(Offshore Energy; Oct. 13) - The world's first LNG-fueled Panamax-class coal carrier, the Shoyo, has started commercial operations after being filled with its first fuel at the beginning of October. The 771-foot-long, 95,233-gross-tonnage vessel was built by Japanese shipbuilder Oshima Shipyard for Nippon Yusen Kabushiki Kaisha (NYK Line) and Kyushu Electric Power. Oshima delivered the coal carrier on Oct. 2.

With NYK at the helm of operations, the primary mission of the Shoyo is delivering coal from overseas suppliers to Kyuden's coal-fired power plants. The coal carrier received its LNG fuel supply at the port of Tobata, Fukuoka Prefecture on Oct. 12. It was the first shore-to-ship bunkering for an oceangoing LNG-fueled vessel in Japan. The ship is designed to be compatible with both shore-to-ship and ship-to-ship bunkering. Running on cleaner-burning liquefied natural gas, the Shoyo will emit significantly less emissions delivering coal than older ships that traditionally run on bunker oil and other dirtier fuels.

Competition cuts tanker rates for moving Russian crude

(Reuters; Oct. 13) - Russian oil producers are enjoying the cheapest costs to ship to refiners in China and India in almost a year due to a growing number of vessels plying the routes, according to trading and shipping sources. The arrival of new shippers outside the purview of Western governments allows Russian firms to earn more than the $60-per-barrel cap the U.S. and its allies aimed to impose on Russia through sanctions. It also means enforcing the cap will have limited impact on Russian revenues.

On Oct. 12, the U.S. imposed the first sanctions on owners of tankers carrying Russian oil above the cap — one based in Turkey and one in the United Arab Emirates — in an effort to close loopholes in the mechanism designed to punish Moscow for the war in Ukraine. When the sanctions were imposed, most ship owners and vessels involved in the trade were Western. But since then, traders willing to work the routes snapped up older tankers and others were re-registered in countries not imposing sanctions.

The number of tankers that are part of a so-called shadow fleet is estimated to total 535 ships, with an average age of 23 years, according to analysis from maritime platform Lloyd's List Intelligence, adding that two-thirds of the tankers have no known insurance coverage. So many vessels are willing to carry Russian oil that freight rates have fallen — effectively handing Russian producers even more revenues. Sellers of Russian Urals crude are saving about $7 a barrel on freight rates this fall compared with last winter, shortly after the price cap was imposed, according to traders and Reuters calculations.

Canadian Indigenous nations take 43% stake in pipeline system

(Calgary Herald; Oct. 13) - A group of five Indigenous and Métis communities in Alberta marked a 43% acquisition of a natural gas liquids (NGL) pipeline system on Oct. 12. The partnership, which came after a C$103 million loan guarantee from the Alberta Indigenous Opportunities Corp., will see Wolf Midstream operate the Access NGL pipeline system as part of a 25-year NGL transportation agreement with the Northern Lakeland Indigenous Alliance. The system's capacity is about 70,000 barrels per day.

The Crown corporation has provided $511 million in loan guarantees in five transactions to some 27 Indigenous and Métis communities since 2019. Lee Thom, Kikino Métis Settlement councillor, said at an event in Edmonton that the goal of the new partnership is to educate kids, to help combat what he called the "synthetic drug pandemic," and to create safer communities. "Long story short — the goal is to create these (economic) deals that are never going to go sour," said Thom.

Chief Stan Houle of Whitefish Lake echoed that, saying being able to build a new hockey rink means nearby communities can take advantage of the economic opportunity. "Without this, there is no way we can build all the stuff in our nation." The pipeline system, which was commissioned in July, transports NGLs from northern Alberta to a Wolf Midstream feedstock separation facility. Wolf, a Calgary-based company, is backed by the Canada Pension Plan Investment Board.