Oil and Gas News Briefs
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Gas will cost less than coal to burn for power this year in U.S.

(Reuters; April 10) - U.S. natural gas will be cheaper to burn than coal in 2024 for the first time ever, the U.S. Energy Information Administration said in its Short-Term Energy Outlook on April 10. The use of coal to generate power in the U.S. has been falling versus gas for years in part because gas produces less carbon dioxide and other emissions and its comparative cost to coal has dropped, especially this year.

In 2024, spot gas prices at the U.S. Henry Hub benchmark in Louisiana will average just \$2.15 per million Btu versus \$2.45 for coal, EIA said. If that forecast comes true, that would be the first time on record annual average gas prices were lower than coal prices, according to federal energy data going back to 2001. That compares with average prices of \$2.54 for gas and \$2.52 for coal in 2023, and averages of \$3.62 for gas and just \$2.07 for coal over the prior five years (2018-2022).

The EIA said gas' share of power generation would hold at 42% in 2024, the same as 2023, before easing to 41% in 2025. Coal's share, however, will drop from 17% in 2023 to 15% in 2024 and 14% in 2025. Renewables are gaining market share. The agency projected U.S. coal production would fall from a two-year low of 581.6 million tons in 2023 to 485.2 million tons in 2024, the lowest since 1963, and 464.2 million tons in 2025, the lowest since 1962, as gas and renewable power displace coal-fired plants.

Rising oil prices could stoke inflation, affect presidential election

(CNN: April 8) - The U.S. jobs market is on fire. Consumer spending is strong and the economy is growing at a brisk pace. But there is a growing threat to that sunny economic backdrop: surging oil prices. U.S. oil prices are rapidly approaching \$90 a barrel. Global oil prices are flirting with \$92 a barrel amid worries about a wider war in the Middle East. All this has lifted gasoline prices to their highest levels in five months.

The risk is oil prices keep climbing, hurting consumer spending and undoing the meaningful progress on inflation. That could cause the Federal Reserve to delay interest rate cuts and spook investors on Wall Street. "It's the most serious threat to the economy," Moody's chief economist Mark Zandi told CNN in a phone interview. "Nothing does more damage to the economy more quickly than higher oil prices."

Not only that, but enormous political consequences could follow if gasoline prices spike above \$4 a gallon and stay there. Moody's published a model earlier this year that showed gas prices are a key variable in the November election, one that could tip the scales in the favor of former President Donald Trump. "If they go above $4 a gallon for more than two or three months, Trump will win," Zandi said. "We can digest $85 or $90 oil. If we go over $90 and closer to $100, that's a problem," Zandi said.

Commodities analyst says high oil prices could constrain demand

(Bloomberg; April 8) - Global oil markets are on track to be "extremely tight" in the second half, with prices rising to a level that will eventually constrain demand if OPEC doesn't bring back more supply, said the head of commodities at hedge fund Citadel. "It has really fallen back to OPEC," Citadel's Sebastian Barrack said at the FT Commodities Global Summit in Lausanne, Switzerland, on April 8. The oil-producer group has "definitely regained control."

Crude futures topped $90 a barrel last week for the first time since October as a combination of robust consumption, output disruptions and geopolitical risks pushed prices higher. Similar supply-demand dynamics have also lifted other industrial commodity markets out of their slumber, with copper hitting a 14-month high.

Citadel, a multi-strategy firm has grown in recent years to become the biggest hedge fund player in commodities. It managed around $59 billion of investment capital as of March 1, according to its website. In gas markets, the rapid growth of U.S. liquefied natural gas supply in the next two years will be increasingly important for global prices, Barrack said. LNG exports will connect the country with the rest of the world and will have an "incredible" impact on volatility both domestically and internationally, he said.

JPMorgan CEO criticizes pause in approval of U.S. LNG exports

(Bloomberg; April 8) - Jamie Dimon said the U.S. delay of new liquefied natural gas projects was imposed for political reasons to pacify those who believe oil and gas projects should simply be stopped — a position he calls "wrong" and "enormously naïve." The head of JPMorgan Chase made the comments April 8 in his annual shareholder letter, in which he touted replacing coal with natural gas as one of the best ways to reduce carbon dioxide emissions for the next few decades. Dimon also called LNG exports a "great economic boon" for the U.S. as well as a "realpolitik goal."

"Our allied nations that need secure and affordable energy resources, including critical nations like Japan, Korea and most of our European allies, would like to be able to depend on the United States for energy," the chairman and chief executive officer said in his letter. The strength of U.S. energy production is a "power advantage" for the nation, creating cheaper and more reliable energy for economic and geopolitical advantages, he said.

Dimon’s staunch support of U.S. LNG exports comes in the wake of President Joe Biden’s permitting freeze imposed in January, which prevents any new approvals for pending projects until the Energy Department can further study the economic and environmental impacts of increased LNG exports.

TotalEnergies delays Papua LNG project FID to 2025

(Reuters; April 7) - French oil and gas giant TotalEnergies on April 8 said a planned US$10 billion liquefied natural gas project in Papua New Guinea with partner Santos would require “more work” before a final investment decision could be reached. TotalEnergies said CEO Patrick Pouyanne recently told Papua New Guinea Prime Minister James Marape that the project would need to work with third-party contractors to reach commercially viable engineering, procurement and construction contracts.

"The project will review the structure of some packages and open the competition to an enlarged panel of Asian contractors. As a consequence, FID (final investment decision) of the Papua LNG project is now expected in 2025," the company said. FID had already been pushed back several times, from late 2023 to early 2024 and then to late 2024. The Australia Financial Review reported on April 9 that initial bids from contractors vying to build the project showed it would be uneconomic.

MST Marquee energy analyst Saul Kavonic said the latest delay “isn’t too unexpected” and would reduce pressure on Santos’ balance sheet before its Barossa gas project in the Timor Sea and Pikka oil project in Alaska start production. The Papua LNG project, planned for an annual production of 5.4 million tonnes, is the second major gas project in the impoverished Pacific country. It’s a joint venture between TotalEnergies, Santos, ExxonMobil and state-owned Kumul Petroleum. The Exxon-led Papua New Guinea LNG project started up in 2014, with a nameplate capacity of 9 million tonnes per year.

Problems continue to cut into Russian LNG project

(The Barents Observer; Norway; April 8) - It has been increasingly evident the past two years: Moscow’s full-scale war against Ukraine and its subsequent isolation from the international community will severely trouble the development of large energy projects in the Arctic. Last week, natural gas producer Novatek confirmed that its Arctic LNG-2 export project will shrink in size. There will not be three liquefaction trains as originally planned, but only two, reducing capacity from 19.8 million tonnes a year to 13.2 million.

In August 2023, the first gravity-based production unit was sent from the construction center in Belokamenka to the production site in Gydan. A second unit is due to be towed from Belokamenka in fall 2024. But the projected third production train might never materialize. Arctic LNG-2 was planned to boost Russia’s role in the global LNG market.

The project was to help spur Arctic shipments and lead the way in the transformation of the Northern Sea Route to a commercially viable shortcut between Europe and Asia.

Sources told Reuters that output at the first liquefaction train has shrunk, and production will stop until at least the end of June. A key problem for Novatek is the lack of LNG carriers that can shuttle through thick sea ice to and from the production site. One after another, international partners have withdrawn from the project amid Western sanctions, putting the special-built, ice-class carriers out of reach. To a great extent, Novatek is now dependent on the new Zvezda shipyard in Vladivostok, Russia. However, Zvezda has trouble building the technologically advanced ships. “The vessels problem appears hopeless at the moment,” said Russian energy analyst Mikhail Krutikhin.

Chinese buyer looks to expand into global LNG trader

(Bloomberg; April 10) - China National Petroleum, the country’s biggest natural gas supplier, will build more ships to carry the fuel as it looks to enhance its role as a global gas trader. CNPC’s trading arm, PetroChina International, plans to expand the number of its liquefied natural gas tankers to 25 by 2030, about four times the size of its current fleet, Wang Haiyan, deputy general manager, said at a forum in Beijing on April 8. The investment follows record annual profits at CNPC’s listed unit, PetroChina, which drew heavily on the state-owned company’s dominance of the domestic gas market.

It also indicates an ambition to compete with some of the world’s biggest energy traders in supplying the cleaner-burning fuel beyond China’s borders. China is the world’s biggest LNG buyer, but a rare drop in domestic consumption at the height of the pandemic in 2022 forced Chinese importers to shift their focus to other markets. Last year, PetroChina resold 12 million tonnes of LNG to more than 20 countries, a sizable chunk of the 30 million tonnes it bought from overseas, said Wang.

Even as Chinese demand rebounds, supply pressures are easing. Domestic gas output is at record levels, while Russian gas supplies, particularly via overland pipeline, are also growing apace. That’s creating more options for firms to trade LNG. “Supply isn’t a problem anymore,” and it’ll be even less of an issue as more global LNG projects come online from 2026, Wang said. Chinese importers have locked up more LNG on long-term contracts after Russia’s invasion of Ukraine caused gas prices to spike.

New proposal in British Columbia would move LNG by rail to coast

(Globe and Mail; Canada; April 8) - A new entrant in the race to export liquefied natural gas believes that rail would be the best option for transporting the fuel from the British Columbia Interior to the West Coast for shipping it in large tankers to Asia. Instead of needing a new pipeline to the coast, Summit Lake PG LNG envisages supercooling natural gas into a liquid at a proposed plant near Prince George and then transporting the LNG in specialized shipping containers by rail to the Port of Prince Rupert.

Last week, the B.C. Environmental Assessment Office and the Impact Assessment Agency of Canada opened a comment period that runs until May 2 for public feedback on Summit Lake's proposal. The company's strategy contrasts with other northern British Columbia LNG proposals, which hinge on building pipelines stretching hundreds of miles to the West Coast, where the gas would be liquefied for seaborne transit.

JX LNG Canada, the Calgary-based subsidiary of Changchun Jixing New Energy of China, is the proponent of Summit Lake. Canadian National Railway's network includes tracks that run from near the proposed liquefaction plant about 20 miles north of Prince George to a container terminal in Prince Rupert. The LNG would be loaded at Prince George into International Organization for Standardization (ISO) insulated shipping containers for transport on railcars to the shipping port.

Gazprom working on deal to pay Novatek for building gas pipeline

(The Barents Observer; Norway; April 10) – Russia's Gazprom may pay Novatek for the construction of the Volkhov-Murmansk-Belokamenka gas pipeline with a discount on gas transportation across Russia, three sources familiar with the negotiations have confirmed to the Russian news website RBC. Novatek will build the pipeline to move Siberia gas west to the Murmansk region, said Novatek chief Leonid Mikhelson, but then, as Kommersant reported, it will transfer the line to Gazprom in installments.

According to RBC sources, Gazprom, on behalf of the government, must in return give Novatek a discount for transporting gas through other gas pipelines. According to RBC sources, the construction of the 808-mile pipeline is planned for 2028, with a capacity of up to 4 billion cubic feet of gas per day. The importance of the pipeline has increased since Russia's invasion of Ukraine, as the war has cut Russia off from European markets. Russia now has a significant surplus of gas that needs to find new customers.

Gazprom plans to use some of the gas for petrochemical investments in Yamal. But there is room for more, and an LNG plant near Murmansk is seen as a suitable place to start. The pipeline will be a major triumph for Andrei Chibis, the governor of Murmansk, who in recent years has campaigned for the gasification of his far northern region. The pipeline might not only facilitate the building of the Murmansk LNG project, but also the gasification of key parts of the area, which is among the country's regions with the least level of gas use. Regional heating systems depend on expensive and polluting fuel oil.

Mississippi paper mill plans carbon capture project

(CNBC; April 6) - A paper mill in a Mississippi town could help demonstrate whether capturing carbon dioxide emissions and storing them underground is a viable path to fight climate change. The proposed project at International Paper's mill in Vicksburg was chosen by the Department of Energy in February to receive up to $88 million in taxpayer funding. If successful, the system would capture and store 120,000 tons of carbon dioxide a year, the equivalent of 27,000 gas-powered cars.

Amazon, a partner in the project, buys containerboard from the mill for its boxes and packaging. SLB, the oil field services giant formerly known as Schlumberger, is designing and engineering the mill's carbon capture system in collaboration with RTI International, a nonprofit that developed the technology. The paper mill project is just one example of how $12 billion in funding from the 2021 bipartisan infrastructure law is supporting the development of carbon capture technology across the United States, as part of the Biden administration's efforts to achieve net-zero emissions by 2050.

Carbon capture and storage technology today is expensive, logistically complex and faces controversy over its role in the energy transition and safety concerns in communities where pipeline infrastructure would be expanded. The International Energy Agency has described carbon capture and storage as "critical" to achieve global net-zero emissions, while also warning the oil and gas industry against using the technology as a way to maintain the status quo on fossil fuels. Some climate activists accuse the industry of simply investing in carbon capture as a way to extend the use of oil and gas.

The track record of carbon capture and storage has been one of "underperformance," with only 5% of announced projects having reached a final investment decision, according to the IEA. The industry needs to demonstrate that the technology can operate economically at scale after struggling to ramp up deployment for years.

Federal agency approves oil export terminal 30 miles offshore Texas

(Bloomberg; April 9) - Enterprise Products Partners overcame the last regulatory hurdle to build a proposed deepwater oil port off the coast of Texas aimed at helping record oil exports to flow to markets in Asia and Europe. The U.S. Maritime Administration issued a license for the Sea Port Oil Terminal, which will allow Enterprise to move forward with construction of the project, the Houston-based company said in a statement April 8. The terminal would be 30 nautical miles off the coast of Brazoria County, Texas, built to handle 2 million barrels of oil exports a day, 24 hours per day.

The terminal would be only the fourth in the U.S. able to load supertankers which make long-haul trips to Asia more economical. "Receipt of the deepwater port license from MARAD is obviously a very important milestone," Enterprise spokesperson Rick Rainey said. “However, we are still in the process of commercializing the project and won’t have an estimate on the timing for construction until we make a final investment decision.”

U.S. oil exports more than doubled in the past five years to about 4 million barrels a day. Most of the existing terminals are able to handle only smaller ships, while the proposed Sea Port Terminal will be able to handle supertankers. The project, initially proposed in 2019, faced several delays along the way, including opposition from environmental groups and the pandemic. MARAD approval followed a ruling by the 5th U.S. Circuit Court of Appeals last week dismissing claims by environmental groups that federal agencies had failed to uphold environmental laws in their review of the project.

Takeover pressure not as strong on Canadian oil producers

(Bloomberg; April 9) - A U.S.-style megadeal is possible in Canada’s oil patch, though the pressures that pushed ExxonMobil and Chevron to pursue large takeovers aren’t as strong north of the border, says Bank of Montreal’s top energy banker. However, investors would likely support mergers between major Canadian energy producers that increased scale and improved cost efficiencies — and Canadian companies are in a position to do such deals, said Brad Wells, head of energy at BMO Capital Markets.

But the need to add drilling inventory that helped drive Exxon into its $60 billion offer for Pioneer Natural Resources in October and Chevron to pursue a $53 billion acquisition of Hess isn’t a factor in Canada, where oil sands companies are sitting on decades of supply, he said. The overall health of Canadian companies — including balance sheets strengthened by recent gains in oil prices — reduces the impetus to transact and allows them to be opportunistic, making it difficult to predict when a deal may happen, he said.

“It all comes down to what it looks like: the economics, the strategic rationale, the pro forma business and balance sheet, the price being paid,” Wells said. “All that needs to align for there to be investor support.” Smaller deals already have been happening in Canada. BMO advised Crescent Point Energy on its C$2.05 billion (US$1.51 billion) acquisition of Hammerhead Energy in December. The bank is also advising Enerplus on a $3.57 billion takeover offer by U.S. driller Chord Energy, announced in February.

Still more U.S. oil and gas producers are merger candidates

(Bloomberg commentary; April 9) - Even after a record $200 billion dealmaking frenzy last year, U.S. oil and gas producers haven’t consolidated nearly enough. On a-per-barrel basis, there are still too many companies, too many chief executives and too many drilling rigs wooing a limited pool of capital. Granted, the industry today is a lot slimmer. If you attend industry events where people still exchange business cards and you keep a Rolodex, flip through it to see how much has changed since the pandemic.

I did so a few weeks ago as I was setting up meetings ahead of an industry conference in Houston. The result was a trip down memory lane: Anadarko Petroleum, among the first to go; Whiting Petroleum, merged and re-named; Endeavor Energy Resources, about to disappear; Cimarex Energy, merged; Concho Resources, long gone; Encana, rebranded. The list goes on. Still, if my own worn-out Rolodex serves as any reference, there is plenty of scope left for a fresh round of consolidation.

There are plenty of independent exploration and production companies in the U.S. The segment to focus on is publicly listed firms with a market value under $25 billion. In no particular order, the bracket includes the likes of EQT, Coterra Energy, Marathon Oil, Ovintiv, Permian Resources, Matador Resources, APA and Civitas Resources. They're not household names, but for merger and acquisition bankers and lawyers I speak to, they're all candidates for consolidation. I struggle to believe that by the end of the year, some of the above names wouldn't have either bought someone else or been acquired.

Russia earning a higher price for its crude oil

(Bloomberg; April 10) - Russian oil is trading far in excess of a Group of Seven price cap that's supposed to deprive Moscow of revenue for its war in Ukraine, suggesting significant non-compliance with the measure. The country's flagship Urals grade is fetching about $75 a barrel at the point it leaves ports in the Baltic Sea and Black Sea, according to data from Argus Media, whose price assessments are followed by some G-7 nations involved in the cap. U.S. officials also are tracking the prices.

The cap requires that any Western company involved in transporting Russian oil receives a document vouching that the cargo cost $60 a barrel or less. If it doesn't, they're not allowed to provide their services, such as insurance. The fact that Argus' prices are so far above that level creates a dissonance. While Urals has been above $60 almost all year, this month's surge to well above $70 will stretch the credibility of those documents for traders wanting to keep using Western services.

In March, 23% of Russia's crude shipments had insurance against spills and collisions provided by members of the International Group of P&I Clubs, data compiled by Bloomberg show. That means traders would have vouched that the cargoes cost below $60 a barrel. Even with Russia's recent ability to fetch higher prices, a U.S. official said the cap is still having its intended effect, reducing the amount of money the Kremlin receives from oil sales by forcing the commodity to either be sold under the cap with Western services or through Russia's shadow fleet of tankers that evade sanctions.