Oil and Gas News Briefs
Compiled by Larry Persily
August 19, 2024

Data centers power demand keeps coal and gas plants running

(Wall Street Journal; Aug. 16) - Coal is the electricity sector's largest and dirtiest source of emissions. As of 2023, the U.S. was expected to take offline 133,000 megawatts of coal power by 2035, about 70% of its remaining coal capacity. By 2024, that projection had fallen to 105,000 megawatts, a decline of about 21%. After 15 years of relatively flat power demand, projections of electricity use are surging, and companies are extending the life of aging fossil-fuel plants to accommodate the expected hike in demand.

Artificial-intelligence data centers, manufacturing and broader electrification are the primary drivers behind this projected increase, with data centers accounting for 30% of the expected growth, according to a Goldman Sachs report in April. Energy companies have long been expecting a rise in demand from the electrification of the U.S. economy, but they have been caught off guard by the demand surge from the sudden rise of AI, said Michelle Solomon, a senior policy analyst at Energy Innovation. “Utilities around the country are kind of going into panic mode,” she said.

Coal power has declined over the past 20 years as it has struggled to compete with cheaper gas and renewable projects. Gas has also been slated to steadily retire to meet climate goals. Climbing electricity demand, however, is granting coal and gas a temporary new lease on life. Patrick Finn, analyst at energy-consulting firm Wood Mackenzie, said data centers in particular are putting added stress on the grid because demand is present 24 hours a day, which green energy alone can't meet. “The existing fleet (of fossil-fuel generators) needs to stick around longer and run harder,” he said.

Pipeline operator says U.S. data centers need more gas-fired power

(S&P Global; Aug. 16) – Pipeline operator Kinder Morgan expects incremental demand for natural gas from U.S. data centers will be 3 billion to 6 billion cubic feet per day by 2030 and sees dedicated gas-fired power stations as a preferable supply option to grid power for data centers, Will Brown, chief commercial officer for Kinder Morgan's West Region, said Aug. 15 at the LDC Gas Forums' Rockies and West Forum in San Diego.

So-called hyperscalers like Google and Meta "are extremely aggressive," Brown said. "They're going to the utilities, and the utilities are saying, 'I ain't got it. I'm not going to have it for a few more years,'" Brown said. Regulatory issues with dedicating grid power to data centers could slow down development. Power producers "are going to have a challenge if they want to pull capacity out … (of the grid) and support a data center."

Kinder Morgan sees this as creating an opportunity for gas pipeline companies to supply new power stations specifically dedicated to data centers. "It makes a heck of a lot more sense, in our estimation, to associate a power plant next to a data center coming directly off a pipeline," Brown said. He acknowledged that building infrastructure to meet rising power demand could be a sticking point. "It's starting to get even more difficult to build infrastructure in the U.S."

Clean fuel start-ups have not 'lived up to the hype'

(Wall Street Journal; Aug. 18) – Start-ups promising to power planes, ships and trucks with clean fuel are sputtering before they get off the ground, showing how hard it will be to wean many industries off oil and gas. A venture backed by United Airlines that raised hundreds of millions of dollars to turn trash into jet fuel appears to have shut down. Another, backed by Airbus, JetBlue and GE Aerospace, that was working on using hydrogen to power planes, went bust. Chevron, BP and Shell, meanwhile, are scaling back projects to make biofuels from cooking fats, oils, greases and plant material.

"The excitement of the early days has not lived up to the hype," said Andy Marsh, chief executive of Plug Power, a start-up that recently opened one of the country's first plants making green hydrogen, a potential replacement for fossil fuels in industries such as steel making and chemical production. Shares of Plug Power have tumbled more than 90% since the passage of the U.S. climate law two years ago. Shares of biofuels start-up Gevo, where Marsh is a board member, are down about 80% in that span.

The failures and delays are all but extinguishing the early optimism after the climate law passed. Rising costs have delayed timelines and made it more difficult for companies to raise money. Government delays in completing tax credits are adding to the challenges. Without clean fuels, emissions at many companies could keep climbing, threatening climate targets. Industries including aviation and shipping are counting on the new fuels because wind and solar power and batteries can't meet their energy needs.

"It's really challenging to get new technology to do what the fossil-fuel industry has been doing for 80-plus years," said Jimmy Samartzis, CEO of LanzaJet, a start-up backed by Shell, Southwest Airlines and Microsoft. LanzaJet will soon start production at a Georgia plant, one of the first for sustainable aviation fuel in the U.S. Construction ended up being a lot more expensive than expected. The company's fuel, which is made from ethanol, costs about twice as much as conventional jet fuel without subsidies.

Danish company cancels green hydrogen, methanol project

(S&P Global; Aug. 15) - Orsted has ceased the development of its pioneering FlagshipONE e-methanol project under construction in northern Sweden, citing slow market progress and an inability to sign long-term offtake contracts, the company said Aug. 15. The Danish company took a final investment decision on the project in 2022 after acquiring it from Liquid Wind and was targeting demand in the marine fuel sector.

"While we were aware of the substantial uncertainties and risks associated with the development of a pioneering and immature liquid e-fuel project and market at the time of the FID, it was a strategic choice to take a leading position in shaping the industry," Orsted said. The project in Ornskoldsvik was to make green hydrogen from a 70-megawatt electrolyzer to produce up to 55,000 tonnes per year of e-methanol.

The company planned to use renewable energy and biogenic carbon dioxide captured from a nearby biomass-fired heat and power plant. "Industrialization of the technology as well as the commercial development of the offtake market have progressed significantly slower than expected," Orsted said. The cancelation comes as most shipping firms remain reluctant to sign long-term contracts for methanol produced via sustainable means. Ship operators are not willing to swallow the high costs with limited scope of passing on the expense to their customers, industry participants said.

Goldman Sachs expects Saudis to invest more in non-oil sectors

(Bloomberg; Aug. 16) - Saudi Arabia is expected to put less money into the oil industry than initially predicted in its goal to invest $1 trillion in strategic sectors by the end of the decade. The kingdom will likely direct the majority of its funds, around 73% of total investments, into non-oil sectors by 2030, according to Goldman Sachs, a shift from the bank’s earlier estimate of 66%. The increase toward non-oil investments leaves only a quarter of the funds for oil sectors, as the kingdom focuses on industries that enable its diversification including metals and minerals, transport and logistics, and digitalization.

Under Crown Prince Mohammed bin Salman’s economic transformation plan Vision 2030, Saudi Arabia has opened up its economy to new avenues, investing in new sectors and re-branding the country’s image. A big goal in the vision is to reduce reliance on crude sales. Although capex in the oil sector is likely to shrink by $40 billion between now and 2028, natural gas continues to be “a key contributor to the country’s decarbonization, economic development and diversification plans,” Faisal AlAzmeh, head of Middle East and Africa equity research at Goldman, wrote in a report.

With Brent crude currently hovering around $80 a barrel and with Saudi oil production down to around 9 million barrels a day, the kingdom faces the rising threat of a widening budget deficit. The government’s oil earnings have dropped around one-third from 2022, when prices averaged near $100. Saudi Arabia’s second-quarter budget shortfall came in at 15.3 billion riyals ($4.1 billion), showing just how reliant it still is on hydrocarbon revenue. Authorities expect the budget will be in the red for at least several years.

[Diesel demand in China drops 11% in June, steepest fall in 3 years]

(Reuters; Aug. 15) - China's diesel demand fell by 11% year over year to 3.9 million barrels per day in June, the biggest percentage drop since July 2021, the U.S. Energy Information Administration said on Aug. 15. Sluggish fuel demand in China has weighed heavily on oil markets this year, unnerving market participants who had bet the world's second-largest economy will continue to be a growth engine.

The Organization of the Petroleum Exporting Countries lowered its 2024 oil-demand forecast this week citing softer expectations for China, the first cut since the outlook was published over a year ago. The Paris-based International Energy Agency cut its 2025 forecast, also citing a weak Chinese economy.

Diesel consumption reached an all-time high in China last year but demand has dropped sharply since the second quarter this year, according to the EIA. The slump is largely due to two factors: the country's ailing property sector has slowed economic growth; and liquefied natural gas is replacing diesel in heavy-duty trucks, the EIA said. "Aside from less use of diesel because of slowing economic activity in the construction and property sectors, a small but growing share of China's trucking fleet is using LNG instead of diesel for fuel," the EIA said.

[China, Saudi Arabia top buyers of Russian oil products in July]

(Reuters; Aug. 16) - China and Saudi Arabia were the top destinations for Russian seaborne fuel oil and vacuum gasoil (VGO) exports in July, traders said and LSEG data showed on Aug. 16. Russian fuel oil and VGO seaborne exports last month rose 7% from June to about 4.05 million tonnes, close to 30 million barrels, helped by completion of seasonal maintenance on Russian refineries.

Since the European Union's full embargo on Russian oil products went into effect in February 2023, countries in Asia have been the main destination for Russia's fuel oil and VGO supplies. In July, direct fuel oil and VGO shipments from Russia to China rose by 18% month-on-month to 700,000 tonnes. China imports straight-run fuel oil and VGO for refining feedstock, pooling it with Urals crude oil, according to market sources.

Loadings to Saudi Arabia almost doubled from June to 700,000 tonnes, mostly destined for power generation plants during the hot summer season when power consumption peaks, Reuters calculations and LSEG data show.

[Chinese-built offshore platform will go to work in Saudi Arabia]

(Oil Price.com; Aug. 15) - China, the world's biggest maker of solar panels, electric vehicles and wind turbines, has built the world's largest offshore oil platform that will be used at the Marjan field in Saudi Arabia. The structure, according to Chinese media, represents a breakthrough in the country's development of large-scale offshore energy infrastructure. It also signals that there is enough demand for oil to motivate the investment in such a massive structure.

The parameters of the platform are impressive. At 24 stories high, the platform weighs over 17,000 tons, has a deck the size of 15 basketball courts, and has an annual capacity to produce 24 million tons of crude oil, which is about 176 million barrels, and 260 billion cubic feet of natural gas. The platform will now travel to Saudi Arabia where it will be installed at the Marjan field, which is currently undergoing an expansion aimed at boosting production.

The program will cost $12 billion and add 300,000 barrels daily to the field's capacity, bringing the total to 800,000 barrels per day. It will also add another 360,000 barrels per day in ethane and natural gas liquids production.

[Industry veteran foresees shortage of jack-up drilling rigs]

(Bloomberg; Aug. 16) - Offshore oil contractor Borr Drilling expects almost a third of the world's fleet of shallow-water rigs will be retired in the coming years because of their age, leading to higher daily leasing rates. Drilling near the shore in water that's less than about 400 feet deep requires a special rig that extends its legs down to the seabed, holding the platform above the water. And 30% of the fleet of these so-called jack-up rigs is more than 35 years old, Patrick Schorn, CEO for Borr, said in an interview.

Of the roughly 102 million barrels a day of global oil production, about 20% comes from shallow-water drilling, Schorn said. It's an often overlooked market for rigs compared to deepwater drilling, which commands higher day rates and takes much longer to see initial production. Borr, with its fleet of two dozen rigs, is one of the world's biggest suppliers of modern, shallow-water drilling gear. Its rigs average 7 years in age, he said.

"Real pain in this business is going to be high day rates," said Schorn, who began his career at SLB in 1991 before leaving to run Borr in 2020. "We can argue about whether it happens this year or next year, but at a certain moment, these very old units are going to fall off a cliff, and that's going to create quite a bit of issues." After years of being one of the worst-performing sectors of the global oil market, offshore drilling is experiencing a renaissance as higher crude prices push producers out to sea again.

Record high oil and gas investments expected in 2024/2025 in Norway

(Reuters; Aug. 15) - Norwegian oil and gas investments are expected to hit a record this year and stay at elevated levels in 2025, driven by ongoing field developments and rising inflation, a national statistics office survey showed on Aug. 15. Norway in recent years has sanctioned a string of new field developments as companies took advantage of pandemic-era tax breaks to fast-track projects, part of its strategy to extend oil and gas production for decades to come.

The country's biggest business sector now expects to invest a record 257 billion Norwegian crowns ($23.99 billion) in 2024, up from an estimate of 246.9 billion crowns in May and exceeding a previous all-time high of 224 billion crowns in 2014. Preliminary estimates for oil and gas investments in 2025 stand at 240 billion crowns, compared with a prior view of 215.8 billion crowns in May. "Significantly higher costs have now been reported for some development projects than the operators had previously estimated," the statistics office said in a statement.

The weakening in recent months of the Norwegian currency against the euro and the dollar contributed to raising the cost of investments, the office added. Persistently high oil prices had also led companies to drill more wells at existing fields, potentially speeding up production. However, there had been no new field development projects added since the May forecasts, which meant that the entire cost increase will go toward existing developments, the agency added.

BP continues fight over lack of cargoes from Louisiana LNG plant

(Reuters; Aug. 14) - BP told federal regulators on Aug. 14 that it has reviewed confidential commissioning documents and does not believe Venture Global LNG needs more time to begin commercial production at its Calcasieu Pass plant in Louisiana. The plant has been at the center of a long-running dispute involving energy companies including BP and Shell over their claims to liquefied natural gas from the terminal. The companies allege that Venture Global is dragging out the commissioning process at the plant so that it can keep the gas for itself to sell on the lucrative spot market.

BP, Shell and others have contracts to take LNG from Calcasieu Pass, but Venture Global has said it is not bound under those contracts while the plant is still in the commissioning phase. BP said it has reviewed the documents submitted by Venture Global and "reiterates its position that no (commissioning) extension is required," the company told regulators. The documents cover ongoing repairs to a heat-recovery steam generator as well as over 124 weekly commissioning and site inspection reports.

The Virginia-based firm's Calcasieu Pass plant has been producing and shipping LNG for more than two years. Venture Global applied to the Federal Energy Regulatory Commission for an extension to start commercial operations of its Calcasieu Pass facility to next year, but its customers said they could not accept the extension unless they had access to confidential commercial documents. On July 25, an administrative law judge issued an order giving BP and other customers access to the documents.

Texas regulator under pressure over leaking abandoned wells

(Reuters; Aug. 14) - On a ranch in Pecos County in late July, oil well control specialist Hawk Dunlap used a backhoe to uncover an abandoned well that had sprung back to life despite being plugged just over a year earlier, hissing gas and bubbling toxic water into the dry Texas dirt. Dunlap hopped off the machine and into the hole to clear away remaining soil with a shovel, and then picked up a brittle chunk of cement that was part of the casing meant to keep fluids and gases underground. He crushed the cement into dust with a squeeze of his fingers as the family who owns the ranch circled around him.

"This was not plugged properly," Dunlap said. "This is the work of the three stooges of the Railroad Commission." The commission, despite its name, oversees oil and gas operations in Texas. Dunlap, a three-decade veteran of oil fields around the globe, has become one of its most vocal critics. Armed with a portable gas detector and cell phone, he has spent much of the past two-and-a-half years documenting a flurry of oil well blowouts and leaks across West Texas at the behest of landowners.

It's an epidemic that he says is caused by low-quality plug jobs left behind by operators and their contractors and approved by the commission. He and Sarah Stogner, an oil and gas lawyer who documents their work on social media, say they have recorded over 100 leaking legacy or "orphan" wells with no responsible owner, which were listed in commission records as properly plugged, including the one at the ranch in Pecos County. Reuters reporting, along with interviews with landowners and experts and a review of commission records show why the regulator is under increased pressure.

State cancels oil and gas company's rights to operate in Colorado

(Colorado Sun; Aug. 15) - Facing millions of dollars in fines, dozens of violations, legions of complaints from homeowners as well as local governments, oil and gas operator Prospect Energy on Aug. 14 had its right to do business in Colorado canceled. The Energy and Carbon Management Commission endorsed a settlement agreement between the commission staff and the company. Prospect Energy also has an agreement with Larimer County and Fort Collins to clean up well sites.

As part of the agreement, the state will waive $1.7 million in fines. Whatever funds the company has available will go toward securing and cleaning up its sites. Prospect Energy was fined for illegal flaring, spills and failing to do well-integrity tests. Prospect

Energy's 59 wells will end up in the commission's orphan well program and will eventually be plugged and abandoned by the state.

Under the agreement, Prospect Energy's owner, Ward Giltner, must obtain commission approval before owning or operating any future oil and gas properties in Colorado. The company still faces $337,000 in fines from the state Air Pollution Control Division for air emission violations. Division inspectors found emissions of volatile organic chemicals and hydrogen sulfide on repeated visits. Prospect Energy operates mainly low-producing wells — 49 in Larimer County and 10 in Fort Collins — and several tanks for collecting produced water and oil. The wells date as far back as 1928.

Exxon again postpones FID on Mozambique LNG project

(Africa Oil & Gas Report; Aug. 19) - ExxonMobil has again postponed a final investment decision on its proposed liquefied natural gas project in the Rovuma basin in northern Mozambique. The new date is 2026. Liam Mallon, president of ExxonMobil Upstream, informed Filipe Nyusi, the Mozambican president, of the decision at a recent meeting in Maputo. Nyusi announced the postponement to the media in a speech in which he noted that the delay causes problems because the "expectations of the countries are enormous and people think that part of their problem may have been solved."

Plans for taking FID in 2025 were announced only three months ago by Anne Gibbs, ExxonMobil's country manager in Mozambique. It was the third time in five years that ExxonMobil had shifted the date for taking the decision to construct the project, planned to monetize more than 60 trillion cubic feet of offshore gas resources by building a liquefaction plant with 18 million tonnes annual production capacity.

Rovuma LNG, as the project is called, was initially expected to reach FID in 2019, the same year that TotalEnergies led its partners to FID on a similar project in the same basin. ExxonMobil demurred and a year later, in 2020, the world was swept up in the COVID pandemic. In 2021, as Total started work on its own project, Islamic insurgents attacked in the area. Total ordered its employees and contractors out and declared a force majeure on the project. It is anticipated the company will restart work this year.

Conservationists drop challenge against Australia gas project

(Bloomberg; Aug. 19) - Woodside Energy and the Australian Conservation Foundation (ACF) have agreed to dismiss the latter's challenge to the development of the US$12.5 billion Scarborough natural gas field off Western Australia. The parties agreed to seek orders from the federal court to dismiss the proceedings, Woodside said in a filing with the Australian Stock Exchange. The project now has all primary environmental approvals in place, and offshore work is "progressing well," the company said.

The announcement comes as scrutiny of fossil fuel developments in Australia increases. The nation is among the biggest exporters of both coal and liquefied natural gas and its LNG plants are some of the biggest emitters, threatening a target of net-zero by 2050. The ACF had sought to challenge Woodside's regulatory approvals on the grounds that Scarborough would contribute to meaningful climate change, affecting the Great Barrier Reef — about 3,100 miles east of the gas fields. Scarborough was two-thirds complete at the end of June and is on track to deliver its first cargo in 2026, Woodside said.

"Late last week it became apparent that the case was unlikely to succeed," the ACF said in a statement. "Litigation is expensive and risky, and communities often come up against opponents with far greater resources." Woodside has increased its bets on the future of natural gas, citing its lower emissions relative to coal. It bought a troubled U.S. LNG export developer last month, and has brought Japanese partners into Scarborough, despite facing a backlash on its climate policy from some investors.

Germany will review application to drill at protected marine site

(Bloomberg; Aug. 14) - Germany will scrutinize an application to drill for natural gas at a protected marine site after explorer One-Dyas cleared a key hurdle with local authorities. One-Dyas wants to tap the North Sea site with a view to supplying gas to Dutch and German households by year's end. The regional mining authority granted it permission Aug. 14 to drill horizontally from a Dutch platform into German territory, but activist groups are pursuing legal action against the application.

The first-step approval "shows we are doing the right thing and that we have developed the project convincingly," CEO Chris de Ruyter van Steveninck said in a statement. Before drilling can start, Germany and the Netherlands have to close a bilateral agreement, according to a statement from Lower Saxony's Economy Ministry.

Germany was hard-hit by the energy crisis that followed Russia's invasion of Ukraine and had to wean itself off piped gas from Moscow. The country now gets most of its supplies from Norway and the Netherlands, as well as liquefied natural gas from world markets. It'll have to weigh any additional need against the ecologically sensitive nature of the proposed drilling site. "There are many downsides to consider," Economy Minister Robert Habeck said. One-Dyas sees potential to pump as much as 460 billion cubic feet of gas from its platform off Borkum Island over the life of the project.

Second LNG carrier departs from sanctioned Russian export terminal

(Bloomberg; Aug. 15) - A second liquefied natural gas tanker left an export terminal in northern Russia that's subject to U.S. sanctions, ship-tracking data show. The Asya Energy, part of a suspected "dark fleet" of vessels assembled by Moscow to take gas to willing buyers, is now heading west after satellite images showed the ship at the Arctic LNG 2 export terminal last weekend.

Traders are closely tracking activity at the terminal, which was slapped with sanctions last year that prevented delivery of the ice-class tankers needed to export the LNG. Yet earlier this month a tanker set off from the plant, suggesting Russia has managed to circumvent the curbs using its shadow fleet, particularly in the summer when the sea ice is not as much an issue for LNG carriers. The Asya Energy previously showed its location as circling in the Barents Sea for more than 10 days, apparently concealing its true location. The ship's destination and the buyer of its cargo are unclear.

"Interesting to see that despite the conflict in Ukraine, Russia is still growing" in LNG, Oystein Kalleklev, chief executive officer of shipper Flex LNG, said. Moscow appears to be repeating its oil playbook — using a shadow fleet to send cargoes to friendly nations — he said. "We do think that the Russians will also find willing buyers for these LNG volumes," Kalleklev said.

Second LNG production unit arrives at Russian project site

(Bloomberg; Aug. 17) - Russian gas producer Novatek seems to be pushing ahead with its Arctic LNG 2 plant despite Western sanctions. A small fleet of tug vessels towing a platform topped with the plant's second production unit approached the gas export terminal on Aug. 17, according to ship-tracking data. The platform left the construction yard near Murmansk on July 25, taking a three-week journey across the eastern Arctic.

Arctic LNG 2 is a key pillar of Russia's strategy to expand its liquefied natural gas exports into a growing global market that could help Moscow offset lower pipeline gas flows following its invasion of Ukraine. The U.S. slapped sanctions on the Novatek-led project last year, aiming to cut the energy revenues fueling the Kremlin's war machine. The restrictions prevented delivery of the ice-class tankers needed to export the LNG, delaying shipments by months. But satellite images show two vessels recently left the plant, suggesting Russia has managed to circumvent the curbs using a shadow fleet.

The second production platform for Arctic LNG 2 seems identical to the first one, with a length of about 1,083 feet and a width of about 492 feet, according to satellite images from Copernicus Data Space Ecosystem. The first unit was delivered to the production site a year ago. It's unclear when output from the new unit may begin, but the first train took more than four months to start up production following its arrival at the site on the Gydan Peninsula. Arctic LNG 2 was designed for three production units, but construction of the third unit appears on hold due to Western sanctions.