Oil and Gas News Briefs
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OPEC+ may have trouble holding oil prices above $75

(Bloomberg columnist; Aug. 7) - After abandoning its pursuit of $100 oil in June, OPEC+ faces a new challenge. Increasingly, the market is testing its downside. Can Saudi Arabia, Russia and their peers defend a floor around $75? It can for a few weeks, or maybe two or three months. But protecting that threshold into late 2024 and in 2025 will be increasingly painful — so difficult that the cartel will need to let crude prices drop further in 2025.

On Aug. 5, in a move exacerbated by a meltdown in global markets that prompted a fire sale of millions of barrels worth of financial derivatives linked to oil, diesel and gasoline, Brent crude fell to $75.05 a barrel, its lowest since early January. The Saudis and their allies are in a tight corner. I don't see the potential for a lot more downside — for now.

Supply is the problem for OPEC+. Non-OPEC production is increasing fast, led by the Americas. The extra output from the U.S., Canada, Brazil and Guyana is enough to meet the growth in global oil demand. And production from OPEC+ itself is larger than it should be. It's not just perennial cheaters like Russia, Iraq and Kazakhstan, which pump more than their self-imposed limits, but also the United Arab Emirates, Iran and Venezuela.

Come the end of the summer in the Northern Hemisphere, oil demand will experience its seasonal downturn. Almost at the same time, OPEC+ plans to start adding more barrels into the market. That will tip the physical market into oversupply, endangering the $75-a-barrel level. OPEC+ could defend it by delaying its production hikes — but that would amount to an admission of defeat. The cartel is a victim of its own success. It kept prices too high too long, preventing inflation from slowing, while subsidizing its archenemies in Texas. That $100 target is now a distant memory; it remains to be seen how low oil can go.

China's weakening demand for diesel affects global oil market

(Bloomberg columnist; Aug. 5) - To get an idea of why the oil industry keeps failing to see the demand lift from China that it's been waiting for all year, consider this: The square footage of buildings that broke ground in the six months through June was the lowest since 2009. That remarkable slowdown is a problem for the cement industry. But it is also reverberating through the oil market in ways that are still not appreciated. China's building sector is one of the world's biggest consumers of diesel fuel, also known as gasoil.

That's good news for the climate, but bad news for anyone who was counting on China's thirst for crude remaining as strong in the future as it was during the 2010s. China's millions of diesel engines consume just under 4% of the world's oil. As a result, they account for a bit more than 1% of the world's carbon dioxide emissions, a similar climate footprint to France and Scandinavia put together. On measure after measure, however, this industry looks to be in trouble.

China's gasoil demand in June fell 11% from a year earlier, and in Shandong the teapot refineries — a group of privately owned refineries that focus on turning crude into diesel — are operating at barely half capacity. Barring blips in 2020 and 2022, when COVID lockdowns brought the national economy to a juddering halt, that's the worst performance in nearly a decade. As recently as 2021, all but a handful of the semi-trailer vehicles manufactured to haul big truck loads in China were powered by diesel. So far this year, its share is barely holding above 50%, as electric and gas drivetrains take market share.

Canadian oil producers hopeful new pipeline will boost their prices

(Reuters; Aug. 6) - The Trans Mountain oil pipeline expansion was meant to shrink the discount on Canadian oil versus U.S. crude, but three months into operations on the pipeline from Alberta to the West Coast the differential is wider than when commercial operations on the project started. Many analysts had forecast the differential on Western Canada Select (WCS) versus U.S. crude would gradually narrow to single digits thanks to the extra 590,000 barrels per day of export capacity offered by the expanded line.

But instead, WCS for delivery in Hardisty, Alberta, is trading around $15 a barrel below benchmark West Texas Intermediate oil, versus $11.75 a barrel under the U.S. crude on May 1, the first day of commercial operations of the line. WTI has declined in recent weeks to less than $74 a barrel. Oil companies in Canada, the world's fourth-largest crude producer, have struggled for years with production outpacing the space available on export pipelines, causing crude to get bottlenecked in Alberta. TMX's start-up means Canada finally has spare pipeline capacity, but the expected boost to prices has not materialized.

On earnings calls last week, Cenovus Energy and Canadian Natural Resources, both major shippers on TMX, blamed a number of factors. These include increased competition on the U.S. Gulf Coast from Mexican heavy-crude imports and U.S. refinery outages. Even so, company executives remain optimistic that the discount would start to narrow in coming months. "Over the next little while I would say we expect Trans Mountain to continue to have its intended impact in Alberta and differentials to be as narrow as they have been in a long time," said Geoff Murray, executive vice president of commercial at Cenovus.

Court says FERC came up short in LNG projects environmental review

(Houston Chronicle; Aug. 7) - The D.C. Circuit Court of Appeals ruled Aug. 6 that federal regulators failed again to adequately consider the greenhouse gas emissions and environmental impacts of two South Texas LNG projects. The federal appellate court ordered the Federal Energy Regulatory Commission to redo its environmental reviews of Rio Grande LNG and Texas LNG, likely delaying the projects for months if not longer.

"We appreciate the significant disruption (the decision) may cause the projects. But that does not outweigh the seriousness of the commission’s procedural defects," the three-judge panel wrote. A spokesperson for the Texas LNG project, which is owned by New York-based Glenfarne Group, called the ruling a, "procedural decision to correct a technical deficiency. … We have full confidence FERC will address this matter judiciously and efficiently and look forward to working with them on this important issue," they said.

Houston-based NextDecade, which is developing Rio Grande LNG, said it "disagreed" with the ruling and was assessing its options. The ruling only impacts the second phase of the project. Construction of the first phase began last year. Both LNG projects are the subject of a year-long legal fight by environmental groups and have divided residents who, while encouraged by the prospect of new jobs, worry about the impact on fishermen, wildlife and public health. The decision follows a D.C. Circuit ruling last month that said FERC failed to adequately consider emissions from the Commonwealth LNG project in Louisiana.

West Coast Mexico LNG export project incurs higher costs, delays

(Reuters; Aug. 6) - Sempra Infrastructure's Energia Costa Azul LNG export project on Mexico’s Baja Peninsula has been further delayed by labor and productivity challenges that will boost the project's cost, the company said on Aug. 6. Sempra Infrastructure, a unit of utility giant Sempra, has been building the first phase, at 3.5 million tonnes per year production capacity, giving the company access from Mexico's Pacific coast to serve LNG markets in Asia. Sempra took a final investment decision on the project in 2020.

"We are actively engaged with our contractor to advance the project, and we'll see increased features for the projects in the form of additional carrying costs," Sempra Chief Financial Officer Karen Sedgwick said on an earnings call. She did not give a new cost estimate. In 2020, the company said it planned to spend about $2 billion for the first phase. Feed gas for the liquefaction plant will come from Texas and western U.S. fields via pipeline connections into Mexico. The Costa Azul facility is about 40 miles south of the border with California, at the site of an underused LNG import terminal.

First LNG is set for 2025, with contracted customers receiving supplies in spring 2026, Sempra said in its second-quarter earnings report. Of the 3.5 million tonnes annual capacity, 2.4 million has been contracted to France's TotalEnergies and Japanese trading house Mitsui, according to Sempra’s website. Several U.S. LNG projects have recently faced cost escalation due to shortages of skilled labor.

LNG beckons energy majors as biofuels disappoint

(Wall Street Journal; Aug. 5) - Biofuels are the latest green-energy investment to disappoint. That leaves the hopes of Europe’s oil and gas giants pinned on an old standby of the energy transition: liquefied natural gas. Shell and BP had high expectations of biofuels such as renewable diesel and sustainable aviation fuel, pouring billions of dollars into the market. But things have hit a rough patch. Last week, Shell took a $780 million impairment after pausing construction on a Dutch plant meant to become one of Europe’s biggest biofuel facilities. BP abandoned plans for two out of five potential biofuel refineries.

A glut of biofuels, particularly cheap Chinese imports, is squeezing profit margins. It will be tough to make money in the short term as the market is likely to be oversupplied until around 2027, Bernstein’s energy analyst Irene Himona estimates. It isn’t the only clean-energy setback for Shell and BP. The latter company took a $540 million impairment on its New York offshore wind farms in October. Shell closed its hydrogen filling stations in California in February and sold its European home-energy business last year.

Yet Shell plans to grow its LNG volumes by up to 30% this decade. The hope is that more countries will switch from coal to natural gas for power generation, especially in Asia. But the idea that LNG can play a big role in the shift to lower-carbon energy is controversial. Natural gas producers have a big problem with methane leaks and flaring. Also, the current biofuels glut might look quaint in comparison to what could be in store for LNG. Hundreds of billions of dollars have been pumped into new LNG export supplies in recent years.

Supply is expected to rise by 10% a year between now and the end of the decade, roughly double the historical average, according to Michele Della Vigna, head of natural resources research for Europe, the Middle East and Africa at Goldman Sachs. If this gush of supply drives down prices, it will make LNG appealing to price-sensitive emerging economies and grow the market. But a glut wouldn’t be good for the returns of major producers.

Portuguese importer signs long-term LNG deal with U.S. producer

(S&P Global; Aug. 5) - Portugal's Galp will buy 500,000 million tonnes of LNG per year from Cheniere under a long-term contract linked to the U.S. exporter's proposed expansion of its Sabine Pass LNG export terminal in Louisiana, the companies said Aug. 5. The volumes under the 20-year sale and purchase agreement will be sold for a purchase price linked to the U.S. Henry Hub natural gas benchmark, plus a fixed liquefaction fee. The deal is tied to the second of two liquefaction trains that the expansion entails.

The agreement also includes access to a limited number of early cargoes, from 2027 and up to the start of the second train, Galp said. Contract deliveries from the expansion train are expected to start in the early 2030s, Cheniere said. For Cheniere, the contract is the first long-term offtake deal that top U.S. LNG exporter has announced in 2024 as it pursues expansions of its two export terminals in Louisiana and Texas. It is also the second deal that Cheniere has specifically tied to production from Train 8 at Sabine Pass. The deal is subject to conditions including a positive final investment decision on Train 8.

The deal shows that Cheniere is continuing to build commercial progress in support of expanding the capacity at its Louisiana terminal, despite the project being among those caught up in the U.S. Department of Energy "pause" on issuing LNG export authorizations announced in January. Contracting of U.S. LNG has slowed since the permitting freeze, but Cheniere executives are confident it will not thwart the company's plans. The expansion is expected to produce up to 20 million tonnes per year. Six trains are currently in operation at Sabine Pass, each with a capacity of about 5 million tonnes per year.

Japan’s Osaka Gas signs long-term LNG deal with UAE supplier

(Reuters; Aug. 6) - Japanese city gas provider Osaka Gas said on Aug. 6 that it had signed a long-term heads of agreement with the United Arab Emirates’ Abu Dhabi National Oil Co. for the delivery of up to 800,000 tonnes of liquefied natural gas per year to secure stable supplies. It’s the first long-term LNG deal between Osaka Gas and ADNOC, the Japanese company said in a statement, adding that delivery is expected to start in the late 2020s.

The LNG will be primarily sourced from the Ruwais LNG project, which is under development in Al Ruwais Industrial City in Abu Dhabi. The project is expected to start commercial operations in 2028 as the first LNG export facility in the Middle East and North Africa region to run on clean power, the statement said. Under the agreement, LNG cargoes will be shipped to the destination ports of Osaka Gas and its Singapore-based subsidiary, Osaka Gas Energy Supply and Trading.

Osaka Gas and ADNOC will work together to conclude a detailed sale and purchase agreement in the coming months based on the terms of the heads of agreement. Osaka Gas is one of Japan's biggest LNG buyers, handling 11.5 million tonnes of the fuel in the financial year ending March 31, including 6.12 million tonnes for its own consumption.

U.S. natural gas producers cut output amid low prices

(Reuters; Aug. 7) - Major U.S. gas producers are preparing to further curtail production in the second half of 2024, after prices sank nearly 40% over the past two months. Henry Hub gas futures have dropped to around $2 per million Btu, while in West Texas, Waha prices have turned negative a record number of times so far in 2024. Prices fell as demand softened following cooler than expected temperatures. Supply, however, had expanded, as some producers lifted output during the second quarter after prices rose in April and May.

EQT, one of the top gas producers in the U.S., has plans for around 90 billion cubic feet equivalent of strategic curtailments this fall, which the company will carry out if the market remains depressed, CFO Jeremy Knop said during the company’s second-quarter earnings call. Houston-based Apache is set to curtail 90 million cubic feet per day of gas in the third quarter, its CFO, Stephen J. Riney, told analysts in a call last week.

Chesapeake Energy, which will be the largest U.S. gas producer after it completes its merger with Southwestern Energy, plans to defer some well completions while the gas market is weak, biding its time until supply and demand imbalances correct, the company said last month in its second-quarter earnings report. Rivals Antero Resources and EGO Resources are opting to do the same, they said in earnings reports.

Preliminary decision goes against Australian gas project

(Financial Review; Australia; Aug. 5) - One of Australia's biggest gas projects is at risk after the Western Australian Environmental Protection Agency knocked back Woodside Energy's A$30 billion Browse offshore development north of Broome. But the agency's decision is preliminary, and Woodside will continue negotiating for approval. A final rejection would mark a dramatic intervention by the EPA and be a major blow to the government's strategy to shore up gas supplies to 2050 and beyond.

Woodside is developing Browse with BP, PetroChina, Mitsui and Mitsubishi. Production had been expected to start in 2026. Other major gas projects have also been delayed by environmental regulation, with Woodside's $16 billion Scarborough project unsuccessfully challenged by traditional land owners who said seismic and drilling would harm the area's cultural heritage. Also, Santos' Barossa gas field in the Northern Territory was the target of environmental litigation. Earlier this year, a court found claims that the $5.8 billion project would risk Indigenous cultural heritage relied on contradictory and made-up evidence.

In the latest case, the EPA is concerned about threats from the Browse development to pygmy blue whales and green turtle nesting sites and the risk of oil spills near the Scott Reef. Most of the considerable environmental activism against the project has focused on its carbon emissions. A Woodside spokeswoman said the company would "continue to work with relevant regulators to progress environmental approvals." Despite its challenges, Browse is considered a key growth project for Woodside, along with Scarborough.

LNG carrier docked at Russian terminal has a shadowy record

(Bloomberg; Aug. 5) - A liquefied natural gas tanker that's docked at a sanctioned Russian gas facility has no known insurer, is managed by a little-known Indian company and is pretending to be somewhere else. Samir Madani, co-founder of TankerTrackers.com, identified the ship recently docked at the Arctic LNG 2 export plant as the Pioneer, citing its deck appearance and dimensions. He also said it was sending signals showing it's 800 miles away, a move known as spoofing that's a classic hallmark of the shadow fleet.

The Pioneer is part of a suspected "dark fleet" of LNG carriers being amassed by Moscow to carry gas shipments to willing buyers, similar to a group of ships assembled to carry Russian oil. Satellite images taken on Aug. 1 showed an LNG tanker for the first time at the Arctic facility, which had been struggling to start exports due to Western restrictions. The ship is managed by Ocean Speedstar Solutions, according to Equasis, a shipping database. The company was incorporated in June and has a registered address outside of Mumbai, according to India's Ministry of Corporate Affairs.

Pioneer is owned by Zara Shipholding, which lists the same address as Ocean Speedstar, according to Equasis. Until June, the ship was briefly managed by Nur Global Shipping, another little-known company that operates out of the Meydan Hotel, in a United Arab Emirates free-trade zone that has been criticized by officials for its lack of transparency. The use of unheard of companies is similar to Moscow's maneuver to create a shadow fleet of oil tankers. The Pioneer also has its insurer listed as "unknown" on the International Maritime Organization database — another characteristic of dark-fleet ships.

South Korean shipyards in talks for $6.6 billion Qatar LNG carrier order

(Port News; Aug. 5) - South Korean shipbuilders are in talks with Qatar for $6.6 billion in expected deals to build liquefied natural gas tankers as growing demand for the carriers along with container ships is expected to power overall vessel prices to near a record, according to KED Global. HD Korea Shipbuilding & Offshore Engineering Co., the parent of the world's No. 2 shipyard HD Hyundai Heavy Industries, is discussing with state-owned QatarEnergy to supply about five LNG carriers, industry sources said on Aug. 5.

Samsung Heavy Industries and Hanwha Ocean are also in talks with the company to build 10 LNG tankers, according to the sources. QatarEnergy reportedly wants the three South Korean shipyards to build Q-Max LNG carriers, with almost 60% more capacity than a standard-size ship.

Hudong-Zhonghua Shipbuilding, a subsidiary of China State Shipbuilding Corp., agreed to sell 18 Q-Max carriers to QatarEnergy at $6 billion, or $330 million per unit, earlier this year. South Korean shipbuilders are likely to bag $6.6 billion in contracts if QatarEnergy orders 20 Q-Max carriers at similar prices to those to be built by the Chinese company, industry sources in Seoul said. South Korean shipbuilders already won deals worth $9.5 billion to build standard-size LNG tankers at the beginning of this year and late last year.

Australian energy company buys ammonia project in Texas

(Financial Times; London; Aug. 4) - Australia's Woodside Energy has struck its second deal for U.S. assets in a matter of weeks, agreeing to pay US$2.35 billion to buy a low-carbon ammonia project in Texas from OCI Global. The acquisition by Woodside, Australia's largest oil and gas developer, comes on the heels of its US$1.2 billion takeover of the struggling U.S. liquefied natural gas developer Tellurian in late July. The company has been on the hunt for acquisitions to bolster its growth prospects and has said it is seeking to become a “global LNG powerhouse.”

Woodside traces its roots to the 1950s and doubled in size in 2022 when it acquired BHP’s oil and gas division. The latest deal means Woodside will expand its investment in ammonia, a compound used in fertilizers that has gained prominence in recent years as a way of transporting and storing hydrogen. This has been pitched as a way to decarbonize sectors such as trucking and shipping. So-called blue ammonia is made in the same way as traditional ammonia by using gas, but with the carbon byproduct captured and stored.

Carbon-capture technology is undeveloped at scale, however, and has been criticized for extending the reliance on fossil fuels. A number of big oil and gas companies — including ExxonMobil, Saudi Aramco and Abu Dhabi National Oil Co. — have invested in blue ammonia, betting it will play a role in the energy transition. The OCI facility in Beaumont, Texas, is one of the biggest blue ammonia projects under construction, expected to produce 1.1 million tonnes a year. For Amsterdam-listed OCI, the chemicals and fertilizer empire led by Egypt’s richest man Nassef Sawiris, the sale is part of a break-up plan.

Near-record heat stresses power supply in southern China

(Bloomberg; Aug. 4) - Punishing heat throughout southern China is stressing power networks and farmland as extreme weather continues to exact a deadly toll in the world’s second-biggest economy. Electricity demand in Shanghai has hit a record as temperatures surged to 105 degrees Fahrenheit on Aug. 5, close to the city’s all-time high of almost 106 degrees first recorded in 1873 and repeated two years ago. Nearby provinces are also closely tracking the heat to ensure power supplies, while officials have warned rice farmers in Jiangxi and tropical fruit growers in Fujian to protect crops from the blistering conditions.

So far, the grid is holding up, supported by ample stockpiles of coal, China’s mainstay fuel, as well as increased contributions from solar and hydroelectric power, which is still the nation’s chief source of renewable energy. Having learned the lessons from crippling power outages in recent years, the authorities have lifted coal imports to all-time highs and domestic coal production to near-record levels. Heavy rains, meanwhile, have swelled the reservoirs that supply the nation’s hydropower.

In Shanghai, the coastal metropolis of 25 million people, the local grid announced that power demand soared to over 40 gigawatts on Aug. 2, more than the entire capacity of the Philippines. The financial center of Lujiazui, filled with glass-encrusted towers and designer malls, consumes twice as much electricity per square meter as Manhattan. The city’s efforts to decarbonize and shift away from heat-trapping coal involve importing 22% of its power from hydroelectric dams, as well as plans for 29 gigawatts of offshore wind turbines.

Carnival plans for LNG to supply 20% of cruise ship fuel mix by 2030

(S&P Global; Aug. 6) - Carnival Corp., the world's largest cruise line, could increase the proportion of LNG in its bunker fuel mix to 20% by 2030, according to a group executive, suggesting the fuel would play a "major" transitional role in the company's decarbonization plans. The Miami-based company, which aims for net-zero emissions by 2050, reported marine fuel use of 2.9 million tonnes in 2023 — making it one of the top bunker consumers on an individual company basis.

Tom Strang, Carnival's senior vice president for maritime affairs, said LNG makes up 11% of Carnival's bunker consumption volumes currently, while high-sulfur fuel oil accounts for over 55% and marine gasoil 30%. The remainder is covered by very-low-sulfur fuel oil. "We continue to believe that LNG has a major role to play in the transition pathway to net zero," Strang told S&P Global Commodity Insights in an interview, adding that Carnival's LNG-capable fleet could switch to low-carbon fuels like biomethane and e-methane later.

The company has a fleet of 95 cruise ships in operation across the globe — of which 10 are dual-fuel vessels that can run on LNG and conventional oil-based fuels. Its order book comprises six LNG-capable ships due to be delivered 2025 through 2033. " While LNG can only reduce greenhouse gas emissions by 20% to 30% compared with conventional fuels, shipping industry participants said the fuel has become the most popular alterative as it is available in many bunker hubs and sufficient to meet European Union regulations.

Container ship giant orders LNG-fueled vessels

(Wall Street Journal; Aug. 7) - Danish container ship giant A.P. Moller-Maersk is hedging its bets on non-carbon fuel ships. The world’s second-biggest liner will add up to 60 new vessels to its fleet, many of which will run on liquefied natural gas, a carbon-based fuel. The move marks a departure from CEO Vincent Clerc’s repeated pledge to avoid LNG-powered vessels and focus on methanol-powered ships that emit no carbon dioxide.

The new ships, which will also be able to run on traditional bunker fuel, will be delivered from 2026 to 2030. They will be a mix of charters and purchases of new vessels, which will cost $120 million on average, according to industry executives. Maersk currently operates more than 700 ships with a capacity to move around 4.3 million containers. The company said its overall capacity will stay the same as it will recycle a number of older ships.

Maersk established itself as a trailblazer in the transition to green shipping when it purchased the first 25 green-methanol ships. But a shortage of promised methanol supplies from Chinese producers led to a change of plans. Clerc said that the industry will see a mix of fuels including methanol and LNG co-exist for a longer period than anticipated while there is a high level of uncertainty on their availability and cost. “It is very dangerous for us to completely place one bet on one technology,” he told the Journal. “We have opted with this order for more of a hedging approach to maintain our competitive edge.”