Oil and Gas News Briefs
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March 7, 2024

BP ready to explore deepwater Brazil

(Bloomberg; March 4) - BP is preparing to drill a deepwater well in Brazil in the latest attempt to break a streak of bad luck by oil majors that have paid billions for offshore exploration rights and have little to show for it. The London-based major is getting ready to drill at the Pau Brasil field in Brazil's so-called pre-salt region, BP said in a response to questions. BP has a contract to start using the Valaris DS-15 drillship on March 24 at a daily rate of $410,000, according to information on Valaris' website.

The pre-salt holds Brazil's most productive fields, but exploration efforts have fallen flat in recent years. Majors including Shell and ExxonMobil have spent billions to acquire concessions and carry out exploration campaigns at pre-salt blocks — but without announcing significant discoveries and have even returned some of the blocks to Brazil's oil regulator. Brazil's oil production is expected to start declining in the 2030s unless new deposits are discovered.

For BP, Pau Brazil is its next shot at gaining a foothold in a major oil-producing nation. BP hasn't produced any oil in Brazil since it sold a small field in 2013. Then in 2020, it sold two deepwater discoveries it bought in 2011 as part of its $3.2 billion acquisition of Devon Energy's exploration portfolio in Brazil. The following year it exited an environmentally sensitive region known as Foz do Amazonas off Brazil's northeastern coast where it was having difficulties getting drilling permits.

Offshore Namibia could be next prolific Africa oil basin

(Financial Times; London; March 5) - Those arguing that higher oil prices are ahead often point in evidence to a chronic lack of investment in oil exploration of late. Without sufficient capital put into large, offshore projects, crude supply will wither, they say. In fact, there have been very large oil discoveries including in the Norwegian North Sea, offshore Guyana and, most recently, offshore Namibia. Shell, TotalEnergies and Portugal's Galp have made a series of discoveries of oil (and some gas) off the coast of the southwest African country of Namibia in the past two years.

Together these could produce hundreds of millions, if not billions, of barrels of oil. If anything, a surprisingly high success rate could spur more activity. Of 17 pure exploration wells since February 2022, there have been 15 confirmed discoveries of commercial quantities of oil or gas. Certainly, Chevron has confidence in this outcome. In October 2022 America's second-largest oil company announced that it had acquired 80% of an offshore license from the Namibian affiliate of Toronto-listed explorer Sintana.

Chevron has announced it will drill 10 wells starting in the fourth quarter of this year. Of course, the law of averages could catch up with explorers. The typical success rate for a series of offshore wells such as these is around a third. Such a high hit rate so far (88%) might mean that this Namibia basin may be highly prolific. But history suggests this kind of success will tail off in the next couple of years. The wells are costly. Some are being drilled in more than three miles of water, before going even deeper through the seafloor. Galp budgeted $200 million to $300 million for its first two successful wells in October.

Satellite launched to keep an eye on methane emissions

(Reuters; March 4) - A new satellite backed by Alphabet's Google and the Environmental Defense Fund group launched from California on March 4 with a mission to pinpoint oil and gas industry methane emissions from space. The MethaneSAT satellite will add to a growing fleet of spacecraft in orbit designed to help fight climate change by publishing data on emissions of the invisible but potent greenhouse gas.

While the European Space Agency and another satellite-based tracker called GHGSat are already providing methane emissions data, MethaneSAT will provide more detail and have a much wider field of view, its backers say. The Environmental Defense Fund said the data will bring accountability to the more than 50 oil and gas companies that pledged at the COP28 climate summit in December to zero out methane and eliminate routine gas flaring, and help those preparing to comply with forthcoming methane regulations in the European Union and the U.S., including a methane pollution fee.

"We'll be able to see who the laggards are, but hopefully they will use that information in a constructive way to improve their performance," said Mark Brownstein, senior vice president for energy transition at the nonprofit group. MethaneSAT was developed in conjunction with the New Zealand Space Agency and Harvard University, among others, and its data will be available to the public later this year, EDF said. Google Cloud will provide the computing capabilities to process the information.

U.K. extends windfall tax on oil and gas companies one year to 2029

(Bloomberg; March 6) – U.K. Chancellor of the Exchequer Jeremy Hunt said he would extend the windfall tax on the profits of oil and gas companies by one year. The Energy Profits Levy was introduced in May 2022 to raise funds to help people who faced soaring energy bills, just as oil and gas companies reaped record earnings. The 35% additional tax will now expire in 2029, instead of March 2028.

The Office for Budget Responsibility had expected tax receipts from the oil and gas industry — including corporation and petroleum revenue levies — to raise £6.1 billion ($7.8 billion) in 2023-2024, falling steadily to £2.1 billion by 2028-2029 as production and energy prices decline. The tax has been heavily criticized by North Sea oil and gas producers for disproportionately hitting smaller companies. While Russia's war in Ukraine help push up profits for energy giants such as BP and Shell, the bulk of their earnings come from operations outside of the U.K. and therefore aren't taxed in Britain.

Europe's natural gas demand fell to 10-year low in 2023

(Energy Monitor; March 4) – Europe's natural gas demand has fallen to a 10-year low and is down 20% since Russia's full-scale invasion of Ukraine, according to new data from the Institute for Energy Economics and Financial Analysis. The decline is due to "effective energy efficiency and demand management measures" implemented since Russia's 2022 invasion of Ukraine, says the think tank, which adds that record hot weather last year, as well as high gas prices, contributed to the steep fall in demand.

In 2023, European gas consumption stood at almost 16 trillion cubic feet, less than the last low in 2014 of just over 16.6 tcf, with Germany, Italy and the U.K. experiencing the sharpest falls in demand. The think tank forecasts that Europe's demand for imported liquefied natural gas will slightly increase by 2025 and then decline steadily through 2030. One side effect of this fall in demand is that LNG exporters could face oversupply and overinvestment in LNG export terminals.

Following Russia's invasion of Ukraine, the European Union sought ways to replace Russian pipeline gas and landed on increasing LNG imports from the U.S. to help meet demand. In 2023, U.S. LNG imports accounted for 46% of total EU imports, compared with just 28% in 2021, according to a separate analysis from IEEFA earlier this year. However, while the volume of U.S. LNG into the EU "more than doubled from 2021 to 2022 … this trend didn't continue, and the increase was just 13% from 2022 to 2023," said Ana Maria Jaller-Makarewicz, the institute's lead energy analyst for Europe.

Saudi Aramco, Abu Dhabi company in talks on U.S. LNG investments

(Reuters; March 6) - Gulf oil giants Saudi Aramco and Abu Dhabi National Oil Co. are in talks to invest in U.S. liquefied natural gas projects, as they step up competition with oil majors and regional rival Qatar in the booming market, sources said. The two energy giants are trying to exploit their fossil fuel resources while they can — and with demand for LNG expected to grow by 50% by 2030 — they are tapping opportunities in the U.S., which has become the world's top LNG exporter as it sends record volumes to Europe.

Saudi Aramco is in talks to invest in Phase 2 of Sempra Infrastructure's Port Arthur LNG project in Texas, which represents a proposed expansion to the already producing first phase, the sources said, declining to be identified due to the sensitivity of the matter.

State-owned Abu Dhabi National is in talks with U.S. LNG developer NextDecade for off-take from a proposed fourth liquefaction unit at its Rio Grande LNG facility in Texas.

U.S. LNG capacity is set to almost double over the next four years, but several U.S. developers have faced financial hurdles to get their proposed export terminals off the ground as investors become more demanding and amid increasing regulatory pressures on banks to focus on environmental, social and governance. "The message is: If ESG-focused banks won't finance U.S. projects, someone will," Kaushal Ramesh, Rystad Energy's vice president for LNG research said. It is not yet clear if the talks with the Gulf oil giants are around equity stakes or sale and purchase agreements, or both.

Top U.S. natural gas producer cuts output due to low prices

(Reuters; March 4) - EQT will curtail nearly 1 billion cubic feet per day of natural gas production through March, the top U.S. producer said on March 4, as companies respond to persistently low prices. The company said the reduction is expected to total nearly 30 bcf to 40 bcf during the first quarter. Gas prices fell to more than a 3½-year low last month, around $1.65 per million Btu, largely on mild winter weather.

"The EQT announcement stands out because the timeline of the cuts is significantly different than others," said Gary Cunningham, director of market research at Tradition Energy. "That will limit the impact, especially given the current storage surplus, but about 50 bcf of gas not coming into the system over the next several weeks is certainly providing some (price) support."

Chesapeake Energy — soon to be the biggest U.S. gas producer after its merger with Southwestern Energy — also cut the amount of gas it plans to produce in 2024 by roughly 30% due to the recent plunge in prices. Other energy firms also have announced plans to reduce drilling this year. U.S. gas drillers have cut the number of rigs operating over the past year by 26%, according to energy service firm Baker Hughes, with most cuts happening in the Haynesville and Marcellus/Utica shale regions.

Suppliers manage to send equipment to Russia’s Arctic LNG project

(High North News; March 4) - In a game of Arctic cat and mouse the U.S., the U.K. and to a lesser extent the European Union continue to slap Russian gas producer Novatek’s Arctic LNG-2 project and its suppliers with escalating sanctions. But their efforts have thus far been unable to definitively shutter the facility’s construction, and both non-Western and Western companies continue to provide their services to the project. Though delayed by sanctions and the loss of Western technology, the gas plant has started production — though no export cargoes have been reported.

Initially, Chinese shipyards ceased assembly of massive modules following sanctions in 2022 before resuming construction months later. France's Technip for months kept supplying key equipment and services with apparent tacit approval by the French government. Similarly, Singaporean shipping operator Red Box resumed deliveries of preassembled modules aboard its two specialized heavy-lift vessels in summer 2023.

Since sanctions against the transfer of liquefied natural gas technology came into effect in May 2022, the heavy-lift vessels have carried five modules from shipyards in China to an assembly yard near Murmansk in Russia. Last week the ships delivered two of the final modules for the project after a challenging month-long journey along the ice-covered waters of the Northern Sea Route. The fact that Red Box has been able to continue deliveries critical to completion of Arctic LNG-2 highlights the difficulty in designing sanctions to stop the flow of technology and equipment to the project.

Korean shipyard looking to sell LNG carriers built for Russia

(Bloomberg; March 5) - Ever-tighter sanctions against Moscow have left a South Korean shipbuilder struggling to find buyers for specialized vessels intended to serve Russia's newest liquefied natural gas facility, threatening to delay exports from the Arctic project. Russia's Sovcomflot in 2020 ordered the vessels, specifically tailored for use at the Novatek-led Arctic LNG-2 export plant above the Arctic Circle, but the contract was terminated after the invasion of Ukraine and ownership reverted to the shipbuilder.

South Korea's Hanwha Ocean Co. said this week it was still seeking an alternative shipping company eager to take the icebreaker-class LNG carriers. The process was taking longer than usual due to the specialized nature of the ships, it said. Hanwha said Western restrictions were not specifically to blame for the time lag. Any buyer, however, would have to work with Russia and most likely on the sanctioned project — the only market where icebreaker LNG vessels are required to navigate frigid northern waters.

The U.S. imposed restrictions on the Arctic LNG-2 operator in November, all but forcing out investors France's TotalEnergies and Japan's Mitsui. Until a new owner is found for the ships, it will be challenging for the facility to export the LNG it began producing in December. "Ice-breaking tankers are essential, especially for the Arctic LNG-2 project, which will send LNG to Asian countries," said Herve Baudu, a senior lecturer of nautical sciences at the French Maritime Academy. "With the U.S. sanctions, Novatek is finding it very difficult to recover the tankers built by the Koreans. So, Russia is in a bind."

Tankers of Russian oil fly foreign flags to avoid Western sanctions

(Reuters; March 6) - Dozens of oil tankers used by Russia have stopped sailing under the Liberian and Marshall Islands flags in recent weeks after the U.S. ramped up sanctions enforcement on ships linked to those registries, according to shipping data and industry and government officials. The shift reflects the close relationship between the U.S. and the flag administration companies of Liberia and the Marshall Islands, which are headquartered in Virginia, within jurisdiction of U.S. sanctions enforcement.

The heavy past use of those flags also represents a potentially lasting vulnerability for Russia’s oil fleet, whose tankers will remain liable for sanctions violations even after they have switched to a new flag outside of U.S. reach, according to energy and sanctions specialists. "They've created an enduring liability and enduring risk," said Craig Kennedy, a center associate at Harvard University's Davis Center for Russian and Eurasian Studies. The sanctions ban the use of Western maritime services when tankers carry Russian oil at or above a $60-per-barrel price cap set by Western nations.

Commercial ships must be registered, or flagged, with a particular country to ensure they are complying with internationally recognized safety and environmental rules. Reuters analyzed LSEG and Lloyd's List Intelligence shipping data, and interviewed government officials, flag registry representatives and shipping analysts to provide previously unpublished details on the role of flag registries in the recent wave of U.S. sanctions announcements targeting Russia's oil fleet. Many of the tankers flagged in the Marshall Islands or Liberia are now registered in the African nation of Gabon.

Eni may proceed with second offshore Mozambique LNG project

(LNG Prime; March 1) - Eni’s second floating LNG production project in Mozambique has “potential” for a final investment decision in 2024, according to the chief of LNG engineering giant Technip Energies, Arnaud Pieton. Eni’s Coral South FLNG project shipped its first cargo in November 2022, adding Mozambique to the LNG producing countries. The facility’s peak production capacity is 3.4 million tonnes per year.

The TJS consortium, consisting of Technip Energies, Japan’s JGC and South Korea’s Samsung Heavy, built the Coral South unit for Eni, the first floating LNG facility ever to be deployed in the deepwaters of the African continent. Italy’s Eni discovered Coral in May 2012 and it operates the Area 4 along partners ExxonMobil, China National Petroleum Corp., Portugal’s GALP, Korea Gas, as well as Mozambique’s state company ENH. The partners are now working on a second FLNG project, called Coral North.

Pieton told analysts during the Technip Energies 2023 earnings conference call on Feb. 29 that Coral North would be a replica of Coral South, which has been a “great success for us and for Eni.” If the Italian major decides to take FID 2024, it would most likely be “toward the end of the year,” Pieton said.

[Louisiana LNG developer expects investment decision this year]

(LNG Prime; March 4) – LNG project developer Tellurian said March 4 it expects to take a final investment decision in 2024 to build the first two liquefaction lines at its Driftwood LNG export plant in Louisiana. “Plants 1 and 2 are expected to FID in 2024 with Plant 3 expected six to nine months thereafter,” the company said in a new presentation posted on its website. Tellurian said it expects to own 35 to 40% of the first two units and an “increasing share” of any expansion.

The company also said it expects to issue a full notice to proceed to engineering and construction giant Bechtel to begin construction in the second half of this year. Under the first phase, Tellurian aims to build an LNG production and export terminal near Lake Charles with a capacity of up to 11 million tonnes per year. Tellurian issued a limited notice to proceed to Bechtel in March 2022 and it said in August last year that Bechtel had completed piling work for the first production line and also concrete pouring.

Tellurian recently secured more time from the Federal Energy Regulatory Commission to complete construction of Driftwood LNG. Tellurian has faced a financial squeeze over the past year as it has been unable to line up enough investors and/or partners. The firm is exploring the sale of its Haynesville upstream assets as it works on securing financing for the first phase of Driftwood, estimated at $14.5 billion. Tellurian’s board elected on March 1 not to renew or extend the term of the company’s employment agreement with CEO Octavio Simoes beyond the term ending on June 5, 2024.

[Italy’s dependence on natural gas for power generation is costly]

(Reuters; March 6) - Italy's average wholesale power prices have been the highest among major European markets for the past three years, elevated by a substantially greater reliance on natural gas for electricity generation than rival economies. Wholesale power prices in Italy averaged 127 euros ($137.80) per megawatt hour in 2023, according to LSEG, which was a third more than the average power prices in Germany and France last year, and over 50% higher than the average price in Spain. It also was 50% higher than the wholesale rates in the most expensive region in the U.S.

Italy's power costs have climbed further in 2024, with wholesale prices last month averaging nearly 40% above prices in France and 60% more than in Spain. Such a stiff power cost premium over regional counterparts has hurt major power consumers in Italy, especially industry and large manufacturers, some of which have been forced to cut energy use and production over the past year or so to avoid steep financial losses amid rising gas prices as Europe makes do without Russian pipeline gas.

Italy's relatively higher reliance on gas for electricity generation was a key driver behind the elevated power costs. The share of gas in Italy's electricity generation mix in 2023 was just over 45%, compared to 6% in France, 15% in Germany and 23% in Spain, data from think tank Ember shows. Such a high dependence on gas means Italy's utilities have had little scope to dispatch other forms of power for generation, even with increases in renewable power production in the country.

Italy wants to stop coal-fueled power generation by end of 2025

(Reuters; March 6) - Italy is committed to stopping electricity generation from coal by the end of 2025, except on the island of Sardinia, the energy minister told parliament on March 6, adding that the government would boost gas-fired plants instead. The European Union is moving to phase out fossil fuels across the bloc as part of its drive to mitigate climate change. Oil and coal plants are more polluting than gas-fired stations, though some governments believe gas power plants can help reduce carbon emissions while renewables energy capacity is ramped up.

"The intermediate target of abandoning coal in the electricity generation mix as of Dec. 31, 2025 ... is very close. The updated (National Climate and Energy) Plan will certainly confirm it," Minister Gilberto Pichetto Fratin said. Over the past two years, Italy has given the green light to four new gas-fired plants that will produce 3,400 megawatts, while existing factories will be upgraded to add further capacity of 700 MW by 2026.

Brussels earmarked a carbon emissions reduction target of 43.7% by 2030 for Italy, but the government of Giorgia Meloni has conceded that greater effort will be needed to achieve that goal on time. Briefing lawmakers on the energy situation, Pichetto said Italy has nearly ended its dependence on Russian natural gas imports, a key policy goal of Italian governments since the invasion of Ukraine in February 2022.

Natural gas exploration on the rise in Southeast Asia

(Reuters; March 1) - Energy companies are ramping up exploration activities in Southeast Asia to boost natural gas output and meet long-term demand growth, drawn by recent discoveries and improved investment policies, company executives and analysts said. Malaysia and Indonesia have recently seen successful upstream discoveries, including a major discovery by Mubadala Energy in the South Andaman Block, following years of underinvestment in the sector since the 2015 oil price crash.

As economic and population growth will spur continued gas demand growth in the region, which is expected to peak before 2040, "there is an important window of opportunity for investments in gas and LNG (liquefied natural gas)," said Stefano Raciti, Mubadala Energy's chief operating officer at an industry conference in Kuala Lumpur this week. "In Southeast Asia, we believe this means continuing investing in exploration and expanding gas production," he added. Mubadala Energy is a subsidiary of Mubadala Investment Co., which is owned by the government of Abu Dhabi.

Mubadala is working on expanding output at its Pegaga gas field in Malaysia where two energy majors will be involved for the first time through recent acquisitions. France's TotalEnergies announced last month it bought a 50% stake in Malaysian-headquartered SapuraOMV and Chevron is acquiring Hess and its assets in Malaysia. Separately, Indonesia's Pertamina and Malaysia's Petronas acquired Shell's 35% stake in the Inpex-operated Masela natural gas block offshore Indonesia.