

Oil and Gas News Briefs

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Permian producing more light crude; less valuable to refiners

(Reuters; Oct. 22) - Companies drilling for the crude that turned the U.S. into the world's top oil producer face an unexpected dilemma: their West Texas Midland crude is getting lighter, which could make it less appealing to some refiners. Super-light crudes would have to be blended with heavier grades for processing into gasoline, diesel and jet fuel. Yet less supply of heavy crude and high prices for it could cut demand for WTI Midland.

The volume and quality of the flagship U.S. crude has made it popular with refineries in Asia and Europe, due to its similarity to other benchmark grades and low sulfur content that makes it relatively easy to remove during processing. It has become a central part of Brent, a group of North Sea grades used to price over 75% of the world's crude. But shale producers in the Permian of West Texas and New Mexico have been pumping lighter crude as they exhaust first-tier production areas and move into second-tier areas.

These wells yield more natural gas, with crude pushing into super-light territory. Lighter crude generally is more valued than heavier crude, but refineries are set up for specific densities, usually not super-light crude. Refiners look for crude that can deliver the best margins. Converting units to run lighter crudes economically would require investing in new equipment. Lighter crude tends to produce higher volumes of the petrochemical feedstock naphtha when it is refined, and less of the more profitable diesel and jet fuel.

Small towns in Permian oil patch worry about next bust

(Wall Street Journal; Oct. 20) - Chip Low's drive through one of the richest corners of America's hottest oil field takes him past all the telltale signs of an economic boom. His mind is on the next bust — and whether it could be the big one. The local government finance official steers his BMW onto the main drag in Hobbs, New Mexico, a city of roughly 40,000, where workers' pickups cram into parking lots of chain hotels. Some trickle into a nearby casino with pockets full of money from surrounding drilling projects.

Low reaps benefits of the good times. He works out at a gleaming new rec center close by — complete with 40-foot-tall waterslides — and shares some of his neighbors' skepticism about climate change. But like many longtime residents of New Mexico's Lea County, the biggest oil-producing county in the country, he also knows that a day will come when the wells run dry or crude prices crater. Preparing for those unknowns is a key part of Low's job as an assistant county manager for administrative services.

The history of oil is littered with cities that sprang up practically overnight and just as quickly crumbled. Scars from decades-old downturns are still etched into the collective memory of the mostly small towns speckling the Permian Basin that straddles West Texas and New Mexico. Analysts are now beginning to project what could be the ultimate, slow-motion bust after U.S. shale peaks and producers increasingly look elsewhere to drill. A shift away from fossil fuels has inspired warnings that America's oil patch might follow coal country's footsteps down a long road of disinvestment.

Even as the prospect of weaning the world from oil appears far off, signs of change are hard to ignore. Companies are pumping more oil with fewer workers, and Lea County's employment hasn't returned to pre-pandemic levels. There is less speculative drilling and more maintenance of existing wells. "We've taken the big jump, and now it looks like it's beginning to level off," Low said. "I'm kind of wondering if we're hitting the peak."

Saudi Aramco CEO sees long plateau, no abrupt fall in oil demand

(S&P Global; Oct. 21) - Global oil demand may witness a long plateau, but it is unlikely to witness an abrupt fall, Saudi Aramco's CEO Amin Nasser said Oct. 21, adding that crude demand would still be hovering above 100 million barrels per day by 2050. "Most analysts agree that even when the growth in global oil demand stops, at some point, no abrupt drop in overall demand is anticipated, and that stage is likely to be followed by a long plateau. So more than 100 million barrels per day would realistically still be required by 2050," Nasser said at the Singapore International Energy Week.

"Oil demand is at an all-time high. (Natural) gas demand has also grown by almost 70% since 2000. So rather than energy transition, we are really talking about energy addition," Nasser added. He said that although oil demand growth had plateaued in a few mature economies, such as the European Union, the U.S. and Japan, those countries still consumed large quantities of oil. "The global south is likely to see significant growth in oil demand for a long time, as national economies grow and living standards rise, just as developed countries enjoyed for decades," Nasser said.

Nasser said there is a sizable gap between prediction and reality, despite billions of dollars invested in the global energy transition. "Transition progress is far slower, far less equitable and far more complicated than many expected. The current transition plan continues to ignore this reality, which is why it has failed to deliver in core areas," he said, adding that energy has not been affordable for the transition.

IEA deputy says world needs investments in oil and gas, renewables

(The Canadian Press; Oct. 23) - Investments in oil and gas production are important and must continue in tandem with increased investment in renewable and clean

technologies, the deputy head of the International Energy Agency said Oct. 22. Mary Burce Warlick made the comments in Calgary, the heart of Canada's oil and gas sector, just a week after the IEA released its most recent forecast for global energy demand.

The IEA said demand for coal, oil and gas is set to peak by the end of this decade. It also predicted a potential oversupply of oil and liquefied natural gas in the second half of the 2020s. But Warlick said she understands the concerns people have about the energy transition in jurisdictions where jobs and livelihoods depend on fossil fuels. She said it's important to understand that continued investment in oil and gas, in particular, will continue to be "important and necessary" for a period of time.

"We currently have two energy economies, in a way, that need to be carefully balanced, even as we are trying to drive and accelerate the investments in renewables and clean energy technologies," Warlick said. "But as I said, our scenarios show a peaking in oil and gas and coal by 2030 ... and that means that even as the investment and production continues in that sector, it will be important for companies to be thinking about how they will respond to markets as they begin to change."

Japanese utility may export CO2 to Australia for underground storage

(Argus Media; Oct. 21) - Japanese utility Chubu Electric Power is considering exporting carbon dioxide to Australia for carbon capture and underground storage, as it speeds up efforts to decarbonize industries surrounding Nagoya port in central Japan. Chubu on Oct. 21 agreed with Japanese upstream firm Inpex's subsidiary Inpex Browse to explore the possibility of establishing a CCS value chain, including capturing CO2 in Japan then transporting it from Nagoya to Western Australia's offshore Bonaparte Basin.

Further details, including a timeline and potential export volumes, are still unknown. Inpex in 2022 was awarded a greenhouse gas storage assessment permit in the Bonaparte Basin, together with TotalEnergies CCS Australia and Australian firm Woodside Energy. Inpex aims to reduce GHG emissions from its Ichthys LNG project in the area through this potential underground CCS site, which is expected to begin operations 2030-2031 and store more than 10 million tonnes per year of CO2.

The deal came after Chubu signed an initial agreement Oct. 18 with Australian independent Santos to assess the feasibility on transporting CO2 from Nagoya port to Santos' Moomba CCS project in the onshore Cooper Basin of South Australia. The CCS site has already been commissioned, but it is unclear when Chubu is targeting to export CO2 to the site. Japan lacks the geologic formations for underground carbon storage.

Growth in LNG-fueled trucks in China cuts into demand for diesel

(Reuters; Oct. 23) - Trucking fleets in China are embracing cleaner-burning liquefied natural gas for fuel, a trend India wants to emulate, accelerating a decline in diesel demand and rattling suppliers to the world's biggest oil importer. The rise of LNG trucks in China comes on top of world-leading electric vehicle adoption there and an economic slowdown, dampening demand in what for decades has been the main driver in oil consumption growth, with crude imports down 2.8% this year, weakening global prices.

In September, OPEC warned that LNG truck penetration will weigh on China's future oil demand. Sales of LNG-fueled trucks in China surged in the first half of 2024 after a plunge in local LNG prices to 108,862 vehicles, more than double the same period in 2023, according to information provider CVWorld, with government subsidies and tighter emissions standards in recent years paving the way.

With only 645 LNG-powered trucks operating in India according to government data, its rollout is at an earlier stage, but the government said last month it aims to convert about one-third of its heavy truck fleet of over 7 million vehicles in five to seven years, a target experts call ambitious. That could weaken crude demand growth in India, which analysts expect to become the top consumption driver as China's demand stabilizes. The Chinese and Indian governments are providing policy support for LNG trucks to reduce pollution, but companies are attracted by cost savings.

China plans bigger role for renewables in move away from coal

(S&P Global; Oct. 23) - Renewables are set to play a "bigger role" in the longer run in China's energy landscape, with such sources already contributing to a sizable switch away from coal, Yaoyu Zhang, assistant CEO and global head of LNG and new energies at the company said Oct. 22 at the S&P Global Commodity Insights' Asia Gas Markets Conference 2024. By 2028, it is estimated that 50% of the electricity power generation would come from renewable sources in China, he continued.

Zhang said the widely held belief that coal switching in China has been driven solely by increased gas use was not the case, with about 10% to 13% of the coal-fired power generation displacement occurring because of the growth in renewables, which he noted has been quite unprecedented. "We have seen that over the past few years, the cost of solar and wind has started to fall below the cost of gas. I think that severely hindered the large-scale coal-to-gas switch, especially on the end user side," he said.

According to Zhang, China is set to see a double-digit year-on-year growth in LNG imports in percentage terms in 2024. In 2023, China imported 71.32 million tonnes of LNG, up 11.7% year on year, according to customs data. However, the average cost of LNG imports is much higher than that of domestically produced gas and pipeline

imports, he said. Large-scale LNG imports also lead to some vulnerability around supply security as compared to gas and renewables that can be produced locally in China.

Competition offers flexible-term LNG contracts, pressures Qatar

(Reuters; Oct. 21) - Qatar is finding it hard to agree on new deals to supply liquefied natural gas to Japan and South Korea as rising competition from the U.S. and elsewhere with more flexible contract terms challenges Doha's decades-old dominance of the market. Qatar was once the top LNG supplier to Japan and Korea, but buyers are showing preference for supplies from the U.S., United Arab Emirates and Oman.

These suppliers offer shorter-term contracts and unlike Qatar do not restrict the cargoes' final destination. This gives buyers flexibility to sell cargoes elsewhere in the future if they no longer need the gas. Negotiations between Japanese and South Korean buyers and Qatar have stalled over Qatar's insistence on its traditional destination clauses, the sources said. If state-owned QatarEnergy does not sign new agreements with Japan and South Korea — the world's second- and third-largest LNG importers after China — Qatar's role in the market could be further diminished.

Qatar was dethroned as the top global LNG supplier by the U.S. in 2023. Meanwhile, Japan's LNG demand is falling due to nuclear reactor restarts, more renewable energy and a slowing economy. Imports fell to 66 million tonnes in 2023, from 83 million tonnes in 2018, Japan customs data shows. Qatar's market share in Japan fell to 4% in 2023 from 12% in 2018. The U.S. share in Japan rose to 8% from 3% during the same period.

Japan looking for more flexibility in LNG supply contracts

(Reuters; Oct. 22) - Japan and other top liquefied natural gas buyers are calling for more supply flexibility in order to adapt to variable power demand, industry executives said on Oct. 22. LNG suppliers such as Qatar prefer long-term contracts with buyers that can last decades to secure financing for what can be multibillion-dollar projects. However, in recent years with more producers entering the market, buyers are seeking shorter-term contracts with flexibility to resell cargoes when their demand is low.

"What we are looking for is flexibility in both our long- and short-term contracts in order to manage the uncertainties we face," Jonathan Westby, senior vice president of LNG at Japan's JERA Global Markets, which handles 40 million tonnes of LNG annually, told an industry conference. He said the company faces an increasingly variable and less predictable customer load, and buys and sells LNG depending on the weather and nuclear power availability.

The outlook for Japan's LNG demand is falling due to nuclear reactor restarts and more renewable energy, but the pace of decline is uncertain. Nuclear power accounted for 9% of Japan's power generation mix last year. Japan shut all 54 of its reactors after a powerful 2011 earthquake and tsunami triggered a meltdown at the Fukushima nuclear plant. Japan now runs 11 nuclear reactors, with restarts contributing to an 8% fall in LNG imports last year to the lowest in 14 years.

China passes Europe as Russia's largest market for pipeline gas

(Bloomberg; Oct. 21) - China is on track to become the largest market for Russia's pipeline gas this year, overtaking Europe after the Kremlin's war on Ukraine capped flows of the fuel to the region. Russia's gas giant Gazprom exported 837 billion cubic feet of natural gas to China in the first nine months of the year, or almost 40% above volumes exported the same period a year ago, according to Bloomberg calculations based on China's customs data and price estimates from the Russian economy ministry.

That compares with 794 billion cubic feet of pipeline gas sent to Gazprom's remaining clients in Europe from January through September, according to calculations based on flows via Ukraine and the TurkStream link. Gazprom has been gradually increasing gas supplies to China via the Power of Siberia pipeline, which was launched in late 2019 and has design capacity of 1.34 trillion cubic feet of gas a year. Last month, Gazprom agreed with China National Petroleum Corp. on additional shipments in December.

While Gazprom plans to boost its annual supplies to China by a further 350 billion cubic feet a year via the so-called Far Eastern route from 2027, that's still a fraction of what the company sent to Europe before Russia invaded Ukraine in 2022. While most of the European Union sought out alternatives for Russia's gas, Gazprom remains a critical source of energy for some nations, including Hungary, Austria and Slovakia.

Bank analysts forecast global LNG oversupply could last to 2030

(CNBC; Oct. 23) - The biggest influx of liquefied natural gas supply is coming online and it will transform the global market, bringing about wide and enduring effects, said RBC Capital Markets. "A wave of new LNG supply — the biggest yet — is set to reshape the global market in the coming years, with broader implications than prior growth given increasing inter-linkages between regional gas markets following the Russia-Ukraine conflict," analysts from the investment bank wrote in a note.

The supply injection is likely to thrust the market into an extended period of oversupply by the end of 2026, remaining to 2030, with prices possibly moving below double digits, analysts such as RBC's Anan Dhanani have projected. Throughout the year, a growing chorus of analysts have warned that tepid demand growth coupled with looming waves

of export capacity could lead to a vastly oversupplied market. As a stream of planned LNG exports flood the market, it's unclear if demand will increase to absorb each wave.

The investment bank projected that global liquefaction capacity, the total amount of LNG that can be produced annually, will grow by around 50% by the end of the decade. The U.S. and Qatar will hold onto their position as the world's biggest suppliers, with a combined market share of almost 50% in 2030, RBC added. But demand from the Asia-Pacific region, the biggest importer of LNG, is only expected to grow by an average of 5% annually. Around 70% of this growth will stem from China, India and South Korea.

Canadian gas producer expects higher prices when LNG plant opens

(Bloomberg; Oct. 22) - The discount on Alberta natural gas may shrink by half once the Shell-led LNG Canada project begins exports next year, said the chief executive of the country's largest gas producer. Alberta AECO hub gas prices may strengthen to a discount of 75 Canadian cents per million Btu to the U.S. Henry Hub benchmark, Tourmaline Oil CEO Michael Rose said in an interview in Calgary on Oct. 22. That compares with a discount that has averaged more than C\$1.50 since the start of June.

Roughly 1.9 billion cubic feet of daily gas production that will be required for LNG Canada is being sold into the North American market currently, depressing prices, he said. That gas will begin going into LNG Canada once it starts operation, which is scheduled around the middle of next year, rebalancing the market and boosting prices for Canadian gas producers, Rose said. The project, with four international partners, is nearing completion in Kitimat, British Columbia.

While waiting for a liquefaction and export option in Canada, Tourmaline last year started sending natural gas from British Columbia to Cheniere Energy's LNG export terminal on the U.S. Gulf Coast.

Solar power leads new generation capacity in U.S.

(S&P Global; Oct. 22) - Solar-powered generation made up 99.6% of total U.S. capacity additions in August, marking the 12th month in a row where solar was the largest source of new capacity, according to Federal Energy Regulatory Commission data. During the first eight months of 2024, solar and wind added 16.546 gigawatts and 2.27 GW, respectively, a review of FERC's monthly Energy Infrastructure Update by the nonprofit SUN DAY Campaign showed. Combined with 212 megawatts of hydropower and 6 MW of biomass, renewables made up 90.1% of all electrical generating capacity added.

Solar is on track to become the second-largest source of U.S. generating capacity, the SUN DAY Campaign said. FERC's "high probability" scenario shows solar additions

reaching 91.266 GW by Sept. 1, 2027, which would make solar capacity 15.2% of the nation's installed utility-scale generating capacity and second behind only natural gas at 40.3%. At the same time, coal retirements would reach 21.377 GW, followed by natural gas-fueled power plant retirements of 14.794 GW.

The amount of solar added January through August was more than double the solar capacity added a year ago. However, about 30% of U.S. solar capacity is in the form of small-scale systems that is not reflected in FERC's data, according to the SUN DAY Campaign. Within three years, total U.S. solar capacity is likely to surpass 300 GW and the mix of all renewables would then exceed 40% of total installed capacity, while natural gas' share would drop to about 37%, according to the SUN DAY Campaign.

India may cut tariffs, tax rate to spur production of green hydrogen

(Bloomberg; Oct. 18) - India is considering cuts to tariffs on imports of machinery needed to manufacture green hydrogen, as the nation pushes to become a major hub for the cleaner fuel. Prime Minister Narendra Modi's government is discussing a plan to exempt some equipment from import levies and to reduce the goods and services tax on the fuel, which is currently set at 12%, according to people familiar with the details, who requested anonymity to discuss private deliberations.

The changes would cover both green hydrogen and green ammonia, though they would only apply to production of fuel which is exported rather than sold domestically, the people said. Green hydrogen is produced by using renewable energy to split apart the hydrogen and oxygen atoms in water.

India aims to lift green hydrogen production to 5 million tonnes by 2030 from almost zero currently under a strategy to decarbonize local heavy industries — including refineries and steel mills — and to become a major supplier of the fuel to global markets. Proposed investments in production in India total about \$187 billion and most export agreements struck so far are for shipments to Europe and Japan, BloombergNEF said Oct. 18 in a report. However, the industry still faces major challenges in scaling up technology, bringing down costs and building demand.

Russia supplied 20% of EU's LNG imports in first half of the year

(Bloomberg; Oct. 22) - Russia's role in the European Union's liquefied natural gas market is growing, even as the bloc weighs how to clamp down on supplies from the nation. Moscow's share of the EU's LNG imports climbed to 20% in the first half of the year, compared with 14% a year earlier, according to a report from the Agency for the Cooperation of Energy Regulators, the bloc's energy watchdog.

The growth highlights Europe's energy balance more than two years after the Kremlin's war on Ukraine sparked an unprecedented supply crisis. While Russia is no longer the EU's top gas provider — most pipeline links have now been halted or severed — LNG from the nation remains a vital piece of Europe's energy security. In the third quarter, the EU's total imports of natural gas dropped to the lowest since 2021, meaning Russia's growing share comes from a smaller pie. U.S. LNG to Europe held steady at about 45% during the period, while Qatar's share slipped to 12%, according to the report.

The EU is now trying to figure out how to reduce its reliance on Russian gas, even as supplies continue to flow into the region. A transit agreement for pipeline flows across Ukraine expires at the end of the year, and officials are exploring ways to replace those supplies. Earlier this year the bloc for the first time agreed to impose limited sanctions on Russian LNG. France and Belgium — whose ports still take in significant amounts of the Russian fuel — have both called for tougher monitoring.

Russia plans more ship-to-ship LNG transfers to cope with sanctions

(Reuters; Oct. 22) - Russia plans to arrange ship-to-ship transfers of liquefied natural gas and gas condensate in the Barents and Bering seas to free up more ice-class tankers for its biggest LNG producer, Novatek, a draft project document revealed on Oct. 22. Novatek has been pressing ahead with production from its Arctic LNG 2 project despite Western sanctions restricting access to the specialized tankers it needs to carry LNG along the Northern Sea Route to Asian markets. Loadings of Russian LNG will be prohibited in European Union ports from March 2025.

To address its shortage of ice-class vessels able to navigate Arctic waters, Russia plans to use those that are available to unload their cargoes to regular vessels at sea, freeing them up for shuttle service between the LNG terminal and the standard LNG carriers, the draft seen by Reuters showed. According to the draft, the first area for ship-to-ship transfers will be set up near Chosha Bay in the Barents Sea for a subsidiary of Novatek. Russia then plans to set up a second facility with the same capacity in Kresta Bay in the Bering Sea, the draft showed. Novatek already uses the same setup for ship-to-ship LNG transfers off the coast of Russia's Murmansk region.

'Dubious' insurance coverage for Russia's shadow fleet a concern

(Bloomberg; Oct. 21) - One of the energy market's open questions since Russia's invasion of Ukraine has been who's insuring the tankers moving Moscow's petroleum against the risk of a catastrophic oil spill. The answer is that while some are still covered by the Western businesses they've always used, owners are increasingly turning to

Russian providers backstopped by a heavily sanctioned, state-backed reinsurer. In some cases, there are insurers in locations including Cameroon and Kyrgyzstan.

The shift in coverage has created uncertainty about how swift and comprehensive payouts might be if something serious goes wrong. The sensitive nature of the topic was highlighted on Oct. 17 when U.K. authorities said they will start challenging tankers suspected of having “dubious” insurance when passing through the English Channel.

The findings, revealed in data gathered by Estonia this summer alongside research by Bloomberg and investigative journalism nonprofit Danwatch, offer the most detailed insight yet into the environmental risks European countries are running because of sanctions that they themselves imposed on Moscow. They reveal a blowback effect caused by forcing vast numbers of ships to operate in the shadows.

“Those suffering loss — fishermen, the tourist industry for example — may experience delays in receiving compensation or may not receive compensation at all,” said Mike Salthouse, head of external affairs at NorthStandard, one of the top marine insurers.

[Appeals Court hears challenge against Alaska LNG project](#)

(Reuters; Oct. 21) - A U.S. appeals court Oct. 21 appeared likely to reject a challenge by environmental groups to the Biden administration's decision to approve exports from a proposed liquefied natural gas project in Alaska. Two members of a three-judge panel of the U.S. Court of Appeals for the D.C. Circuit posed skeptical questions to a lawyer for the environmental groups as she argued that the U.S. Department of Energy (DOE) inadequately weighed the risks to the climate when it authorized exports last year.

U.S. Circuit Judge Justin Walker, a Trump appointee, said that while the climate harms may be uncertain, “it seems like there's still going to be significant economic benefits, whether it's a large effect or small effect. It seems, especially with the Natural Gas Act's presumption in favor of gas, that if there are going to be economic benefits and if it's merely speculative whether there will be environmental harms, that DOE in that situation at least may authorize the export,” Walker said.

The project is being pushed by the state, though it lacks investors, partners and customers. The Energy Department, at the behest of the Sierra Club, agreed to conduct new environmental review studies but ultimately reaffirmed the approval of exports in April 2023. “DOE made a considered judgment,” said U.S. Department of Justice attorney John Smeltzer. Moneen Nasmith, a lawyer at Earthjustice arguing on behalf of the Sierra Club on Oct. 21, said the department overstated the uncertainty of its impact on climate change while ignoring that its claimed economic benefits were speculative.