Oil and Gas News Briefs
Compiled by Larry Persily
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Lack of spending on new oil could drive prices higher

(The Wall Street Journal; June 14) - Some investors are wagering that Wall Street's preference for green energy will depress spending on oil extraction, setting the stage for supply shortages and higher fuel prices. The bets come as money managers line up trillions of dollars for wind, solar, and other renewable programs and as expenditures on oil projects tumble. The drop in fossil-fuel spending is becoming so severe that energy companies could struggle to quench the world's thirst for oil, some analysts say.

Crude is expected to remain in high demand over the next decade to make transportation fuels and petrochemicals used for plastics and other household products. U.S. crude hit $71.48 a barrel June 14, its highest level in more than 2½ years, and has roughly doubled since the end of October. Even after OPEC and its allies lift their oil output in the months ahead, some analysts think production will struggle to catch up to demand, which the International Energy Agency projects will rise at least through 2026.

Spending on oil extraction fell last year to about $330 billion--less than half the total from its 2014 record, said analysts at Wood Mackenzie. That is expected to rise modestly this year and in the years ahead. Leigh Goehring, managing partner at commodities-focused investment firm Goehring & Rozencwajg Associates, said he thinks prices will soar in coming years as consumption tops production for a sustained period for the first time ever. "This is the basis for the next oil crisis," he said. "We're in uncharted territory."

Traders fear supply shortfall could drive oil to $100

(Financial Times; London; June 15) - The world's top commodity traders have forecast a return to $100-a-barrel oil, as investment in new supplies slows down before demand has peaked and before green alternatives can take up the slack. Executives from Vitol, Glencore, Trafigura, and Goldman Sachs said on June 15 that $100 crude was a real possibility with prices already reaching their highest level in two years this week as Brent crude moved above $73 a barrel.

The prediction comes at a time when inflation is rising and many commodities have already reached record highs, boosted by supply shortfalls as the economic recovery gathers pace. Oil has lagged behind because of a slowdown in demand during the pandemic and fears that demand could peak in the next decade. But predictions that prices will move much higher in the next few years are recently gaining momentum.

Jeremy Weir, executive chair of Trafigura, one of the world's largest independent oil traders, said at the FT Commodities Global Summit he was "concerned" by the lack of spending on new supply because the world was not ready to make the leap to clean energy and electrification. "The supply situation is quite concerning. We've gone from 15 years of reserves to 10 years. … There is a concern on the supply side."

Russell Hardy, chief executive of Vitol, the world's largest independent oil trader, said $100 oil was a possibility, though he believes there should be enough spare capacity, with OPEC and allies such as Russia still restricting supplies because of the pandemic. Hardy said the key period for the risk of an oil supply gap was between 2025 and 2030.

Analyst says $100 oil possible but not likely

(S&P Global Platts; June 15) – Oil prices could return $100 this year, top forecasters said June 15, but the consensus is that OPEC+ would provide a ceiling on prices amid greater risks of supply shortages and potential price shocks in the years ahead. Jeff Currie, Goldman Sachs' head of commodity research, emphatically entertained the idea of triple-digit crude at an S&P Global Platts petroleum conference, while warning of the end of investment in long-term crude projects and the ripple effect on prices further out.

While it is not Goldman's central scenario, which continues to predict $80 oil, Currie said he "would put a non-trivial probability on it ($100 oil) between now and end of this year." Currie was downbeat on the prospects for oil investment further out, noting that everyone in the oil industry is looking to get their money back at higher prices rather than return to long-term investments. "Long-cycle production is dead," Currie said.

However, he was more optimistic on U.S. shale and on the Middle East and Russia once returns look better. "The bottom line is Netflix is still a much better business model than any oil and gas investment at this point right now," Currie said, adding, "(if) you get those returns on oil and gas investments high enough, then capital will think about it." Currie's views on prices were supported by separate comments from the head of commodity trader Trafigura, Jeremy Weir, at the FT Commodities Global Summit.

Commodities analyst sees extreme oil-price volatility

(Reuters; June 16) - Oil prices are likely to be extremely volatile in the next few years, driven by supply constraints rather than demand as financing for new production evaporates in favor of renewables, U.S.-based Castleton Commodities International said. "You could see spikes to even higher than $100 a barrel, even $130, and you could also see it go down to $35 a barrel for periods of time going forward," William Reed II, CEO of Castleton, told the FT Global Commodities Summit. "The question is what happens first: Peak demand or peak investment?"

His comments echo those of European rivals who see a return to $100 per barrel oil as a real possibility. Oil has not been above $100 or even $90 a barrel since a sharp downturn in 2014 when the rise of U.S. shale oil convulsed global markets. Reed said an immediate decarbonization of the world was risky and not possible. Picking new investments has become more of a challenge in terms of making sure they meet the returns hurdle and do not become stranded in the energy transition, he said.

Reed sees a longer term role for natural gas for heating and electrification, adding that Castleton was looking to reduce the carbon footprint of its gas with investments in hydrogen and a carbon-capture pipeline.

Conoco, Chevron among potential bidders for Shell’s Permian assets

(Reuters; June 15) - A cadre of oil companies, seeing continued profits in shale, are mulling Shell's holdings in the largest U.S. oil field as the European giant considers an exit from the Permian Basin, according to market experts. The potential sale of Shell's Permian holdings in Texas would be a litmus test of whether rivals are willing to bet on shale's profitability through the energy transition to reduce carbon emissions.

Shell would follow in the footsteps of other producers, including Equinor and Occidental Petroleum, that have shed shale assets this year looking to cut debt and reduce carbon output in the face of investor pressure. To showcase its 260,000 acres in the Permian, Shell has opened a data room, according to people familiar with the matter. Chevron, ConocoPhillips, Devon Energy, EOG Resources and some private energy houses are all potential bidders for some or all of Shell's Permian assets, according to analysts.

Estimates for Shell's acreage run from $7 billion to over $10 billion, the latter implying a valuation of almost $40,000 an acre. That would be in line with the per-acre price Pioneer Natural Resources paid for DoublePoint Energy in April, the most costly deal since a 2014-2016 rush by producers to grab positions in the Permian. A cash deal seems preferable for Shell, which could deploy the proceeds into debt reduction or clean-energy investments. ConocoPhillips owns acreage close to Shell's holdings and analysts say it is a top contender for the assets. Chevron has operations nearby.

Environmentalists step up anti-pipeline pressure on Biden

(Bloomberg; June 13) - Environmentalists emboldened by the defeat of Keystone XL are pressuring President Joe Biden to revoke permits for other pipelines, warning their votes depend on the administration blocking fossil fuel infrastructure. “If you need and want us — as I know the Biden team does — to come out in stronger numbers for 2022, then you have to do right by our community,” Jane Kleeb, the president of Bold Alliance, who spent more than a decade battling TC Energy’s Keystone XL project, said June 11.

Pipelines have been a focal point in the fight against climate change, putting leaders such as Biden and Canadian Prime Minister Justin Trudeau in a tough spot as they pledged to help cut global carbon dioxide emissions at a Group of Seven summit in the U.K. The U.S. is the world's biggest producer and consumer of oil, and it's still unclear how plans to wean Americans off gasoline will pan out. Canada holds the world's third-largest crude reserves and its economy benefits enormously from their development.

Environmentalists and Indigenous groups in both countries are pressuring the two leaders to stop pipeline projects, with protests in Minnesota against Canadian giant Enbridge's expansion of its Line 3 oil sands conduit turning violent this week. Other projects activists are targeting include Energy Transfer's Dakota Access pipeline, which has been shipping crude from North Dakota's Bakken oil field to Illinois for four years, and the proposed Byhalia Connection Pipeline to carry oil from Memphis to Mississippi.

Faced with low stockpiles, high gas prices, Europe burns more coal

(Bloomberg; June 15) - Europe is so short of natural gas that the continent — usually seen as the poster child for the global fight against emissions — is turning to coal to meet electricity demand that is now back to pre-pandemic levels. Coal use in the continent jumped 10% to 15% this year after a colder- and longer-than-usual winter left gas storage sites depleted, said Andy Sommer, team leader of fundamental analysis and modeling at Swiss trader Axpo Solutions.

As economies reopen and people go back to the office, countries like Germany, the Netherlands and Poland turned to coal to keep the lights on. Europe has the world's largest carbon market, charging the likes of utilities, steel producers, and cement makers for polluting the environment. But even with record carbon prices this year, low gas reserves mean burning coal — the dirtiest fuel — has become more widespread again.

"Energy demand has been pretty strong in Europe and we have seen a recovery from the pandemic," Sommer said in an interview. "Gas storage is so low now that Europe cannot afford to run extra power generation with the fuel." The return of coal is a setback for Europe ahead of the climate talks in Glasgow later this year. Leaders of the world's biggest economies failed to set a firm date to end coal burning at the meeting of the Group of Seven at the weekend in Cornwall, U.K.

New supply post-2025 creates buyers' market for LNG contracts

(Natural Gas Intelligence; June 15) - Global liquefied natural gas buyers, hammered by high spot prices in Asia, are increasingly looking to short-term "bridge" contracts to ensure ample supply until demand is expected to cool down later this decade, according to an analysis by Wood Mackenzie. Asian spot prices are hovering around $12 per million Btu for June and July delivery as demand grows and supply is scarce.

However, buyers looking for supply after 2025 are spoiled for choice as new export facilities will come online. Currently there is more LNG available for sale through long-term contracts than there are buyers. “Will this buyers’ market for long-term LNG continue? At the moment it seems so. We expect contract prices for shorter-term deals of less than five years to rise,” said Wood Mackenzie’s Giles Farrer, director of global LNG.

“But if a buyer commits to a long-term deal, lower prices are possible — even if that deal is starting next year. Many sellers are offering contracts which ‘bridge’ the short- and long-term market, giving buyers a potentially lower price over the next five years in exchange for the seller receiving long-term demand security. This allows the seller to de-risk project investments they have already committed to,” Farrer said.

The long-term LNG volume surplus exists largely because uncontracted supply from legacy projects is growing as existing contracts expire. In addition, major suppliers including Russia’s Novatek, France’s TotalEnergies, and Malaysia’s Petronas, have already sanctioned projects over the past few years without contracting all of the supply.

North Dakota loses No. 2 spot to New Mexico’s growing oil production

(Minneapolis Star Tribune; June 14) - North Dakota's oil output rose a bit in April, but the state is in danger of losing its status as the nation's second-largest oil producer to New Mexico. In 2012, after the shale boom, North Dakota moved into No. 2, after Texas and supplanting Alaska. It has been there ever since. "At best we are in a foot race with New Mexico. At worst they have displaced us as second," Lynn Helms, North Dakota's mineral resources director, said June 14. "New Mexico is coming on like gangbusters."

The most recent federal oil production report, which is for March, showed New Mexico at No. 2, with North Dakota close behind. Production has come back stronger from pandemic lows in New Mexico — in the prolific Permian shale oil basin — than in North Dakota. In March, overall U.S. oil production posted a huge monthly gain, with output in New Mexico alone up 17.6% over February, according to the U.S. Energy Information Administration. New Mexico hit new records in oil and gas output in March, a recent EIA report said. But North Dakota posted only a 1.4% gain in output in March over February. In April, North Dakota churned out 1.12 million barrels per day of oil, up 1% over March.

Minnesota court upholds oil pipeline approvals

(The Associated Press; June 14) - The Minnesota Court of Appeals on June 14 affirmed state regulators' key approvals of Enbridge Energy's Line 3 oil pipeline replacement project, in a dispute that drew over 1,000 protesters to northern Minnesota last week. The judges ruled 2-1 that the state's Public Utilities Commission correctly granted Enbridge the certificate of need and route permit that the Canadian-based company needed to begin construction on the 337-mile Minnesota segment of a larger project to replace a 1960s-era line that has been deteriorating and can run at only half capacity.

Pipeline opponents can appeal the decision to the Minnesota Supreme Court. Tribal and climate change groups, plus the state Department of Commerce, had asked the appeals court to reject the pipeline approvals. They argued, among other things, that Enbridge's oil-demand projections failed to meet the legal requirements. Enbridge and the utilities commission said the projections complied with the rules.

"With an existing, deteriorating pipeline carrying crude oil through Minnesota, there was no option without environmental consequences," said the court decision rejecting the appeal. "The challenge: To balance those harms. There was no option without impacts on the rights of indigenous peoples. The challenge: To alleviate those harms to the extent possible." The $7 billion Line 3 replacement would carry Canadian oil sands production and regular crude from Alberta to Enbridge's terminal in Superior, Wisconsin. The project is nearly done except for the Minnesota leg, which is about 60% complete.

Developer stops plan for methanol plant on Columbia River

(Independent Commodity Intelligence Services; June 14) - Northwest Innovation Works will terminate its lease at the port of Kalama, effectively halting its proposed $2 billion methanol plant in Washington. The plant would have added 3.6 million tonnes a methanol production capacity for export to China to feed its growing methanol-to-olefins industry. Kalama is on the Columbia River about 70 river miles from the coast.

The plant would have been the world's largest methanol plant. The proposal for the project, first released in 2014, has drawn fierce opposition from environmental groups in the state, and has been subject to yearslong regulatory difficulties. In November 2019, the Washington state Department of Ecology said it needed a second supplemental environmental impact statement on the plant. A December 2020 report said if the plant were built it would have been one of the top 10 carbon dioxide emitters in the state.

Then in January 2021, the state Department of Ecology made the decision to deny the developer a shoreline conditional-use permit, citing the greenhouse gas emissions and shoreline impacts. The latest action led to the developer's decision to halt the project, the company said in a statement. "The regulatory environment has become unclear and unpredictable," the company said.

Climate activists take Norwegian drilling case to human rights court

(Bloomberg; June 14) - Climate activists that failed in their attempt to stop oil and gas drilling in Norway's Arctic are taking the case to the European Court of Human Rights. Two environmental groups, along with six young climate activists, will file an application to the court, arguing that allowing new oil drilling during a climate crisis breaches human rights. The activists repeatedly lost their case within Norway, ending with the Supreme Court's dismissal in December of their attempt to halt Arctic oil exploration.

The decision to take the fight to Europe follows a legal victory for climate groups against Shell in the Netherlands, and a report from the International Energy Agency concluding the world can only achieve net-zero emissions if the development of new oil fields stops immediately. Norway, Western Europe's biggest producer of oil and gas, has fought a long legal battle against Nature and Youth and Greenpeace — two of the nation's biggest environmental organizations — over drilling licenses in the Barents Sea.

Only one oil field is producing in Norway's Arctic waters, but several others are under development. The Norwegian Petroleum Directorate believes most of the nation's undiscovered resources are located in the Barents. There is growing political pressure in Norway to restrict oil and gas drilling, but the government remains committed to the industry. The government argues that Norway can fulfill its obligations under the Paris climate agreement while continuing to pump oil and gas. The climate activists hope the European court in France will find that doing so breaches their human rights.

Japan looks to hydrogen as path to net-zero emissions

(The Wall Street Journal; June 13) - Japan built the world's third-largest economy on an industrial base powered by imported oil, gas, and coal. It's planning to shift a big chunk of that power to hydrogen, in one of the world's biggest bets on an energy source long dismissed as too costly and inefficient. It's a vital piece of Japan's plan to eliminate carbon emissions in 30 years, and could lay the groundwork for a global supply chain that would let hydrogen come into its own as an energy source, sidelining oil and coal.

Hydrogen has been hyped before, and there are still big economic and technical challenges to overcome. Japan's approach is likely to be a gradual process of moving away from fossil fuels over many years, so it won't cut carbon emissions quickly at first. Nor will it resolve its dependence on foreign energy. The country is planning to use hydrogen produced largely from imported fossil fuels initially.

Like many countries, Japan is realizing it can't achieve zero emissions by 2050 with renewable sources like solar and wind alone. Hydrogen emits water vapor when used, rather than greenhouse gases seen as the main causes of global warming. It can be used to replace fossil fuels in industries where renewables don't work as well.

The government more than doubled its hydrogen-related research and development budget to nearly $300 million in two years, which doesn't include the millions invested by private companies. Eventually, the government is expected to provide subsidies as well as disincentives for carbon-emitting technologies. Japan's industrial players are building ships, terminals and other infrastructure to make hydrogen part of everyday life.

Australia's LNG producers see decarbonization as a necessity

(Reuters; June 15) - Australia's LNG producers are contemplating switching their industry around to become the global leader in hydrogen. The keynote sessions at the Australian Petroleum Production and Exploration Association's (APPEA) conference on June 15 were full of how the industry can, and should, embrace the challenges of climate change and move to producing the energy that can be free of carbon emissions.

The strongest call came from Kevin Gallagher, APPEA's chairman and CEO of Australia's second-biggest oil and gas producer Santos, who said that unless the industry decarbonized, it would not be able to continue to develop its resources. "Decarbonization through technologies like carbon capture and storage, and hydrogen production using natural gas is critical," he said.

It is not the first time hydrogen has been touted as a solution to the emissions from Australia's resources industry, which is a major carbon producer given its leading LNG role and status as the world's biggest exporter of coking coal used to make steel. What's new is the industry is using its biggest event to talk about fundamental change, and to effectively recognize that it will die out if it doesn't embrace a decarbonized future. Perhaps the LNG industry has seen what is happening to coal, and decided to act before it goes down the same path.

Heavy ice in Northern Sea Route delays Russian LNG cargoes

(The Barents Observer; Norway; June 14) - A powerful 980-foot-long LNG tanker sailed north of Dikson on Russia's Kara Sea coast June 14, headed to the Japanese port of Sendai, where it is due to arrive July 7. This year's first eastbound transit of the Northern Sea Route comes almost a month later than in 2020, when the LNG carrier Christophe de Margerie sailed from the Yamal Peninsula to the Chinese port of Jingtang in mid-May. There is a lot of ice in the area this year, and the Vilkitsky Strait and the southern parts of the East Siberian Sea have thick layers of fast ice.

The tanker Nikolay Urvantsev will be escorted across the route this month by a nuclear icebreaker. According to Russia's National Snow and Ice Data Center, the decline in sea ice across the eastern parts of the Arctic was slower this year due to stormy weather in May and spreading of the sea-ice pack. Russia has the Northern Sea Route high on its political agenda and believes it will be able to provide year-round LNG shipments in a few years. In February 2021, the Christophe de Margerie sailed from China to Sabetta in what was the first ever mid-winter commercial voyage on the route.

Japanese operator orders 12 LNG-fueled vehicle transport ships

(Nikkei Asia; June 14) - Japan's maritime shipper Nippon Yusen will invest more than 100 billion yen ($912 million) in 12 new vehicle transporters fueled by liquefied natural gas, as auto manufacturers seek to reduce carbon dioxide emissions in their supply chains. Nippon Yusen's order is the biggest in Japan for LNG-fueled ships, which are expected to produce 25% less CO^2 emissions than transporters fueled by petrol.

Using LNG-fueled transporters is already a bidding requirement for companies that want to work with Germany's Volkswagen. Japan's Toyota Motor began to demand carbon dioxide emissions reductions from major parts suppliers that it has direct transactions with, and is expected to make similar requests of its transportation companies in the future. Honda Motor is also expected to try to cut emissions in its supply chain.

There are currently only about 10 vehicle transporters fueled by LNG, out of about 700 globally. Nippon Yusen, which is the biggest owner of such transporters, is placing an early bet by making the large investment. Nippon Yusen will order six carriers each from a joint venture of Imabari Shipbuilding and Japan Marine United. Each vessel will have loading capacity of about 7,000 vehicles.

Analysts warn producers to curb emissions in Africa

(Bloomberg; June 15) - Oil majors need to curb emissions in sub-Saharan Africa — where almost half of their most polluting assets are located — as investors demand greater efforts to slash carbon output, according to Wood Mackenzie. Crucially, the companies must reduce flaring — burning off gas pumped out with oil — and pollution from new liquefied natural gas plants, the U.K.-based consulting firm said in a report.

While the region accounts for just a fraction of global oil and gas emissions, on a per-barrel basis it’s second only to Australia as the most intensive greenhouse gas producer, Wood Mackenzie said. “The carbon intensity of projects is now a key metric for investment committees,” the firm’s analysts said. “Reducing emissions and considering new energy diversification is really unavoidable.”

Much of the focus is on gas with new LNG plants being built from Mozambique to Senegal. While gas has been seen as a key transition fuel in the global shift to cleaner energy, many investors are increasingly questioning its future in a greener world. “LNG liquefaction will account for a third of all emissions” as sub-Saharan Africa expands capacity in the next 10 years, Wood Mackenzie said. “Plants need to be more efficient and emissions will need to be offset.” Flaring is also rife in the region due to insufficient infrastructure for processing gas and a lack of local markets for it in some countries.

Partner in Mozambique gas project leery of investing amid instability

(Reuters; June 14) - Portugal's Galp Energia, a partner in an ExxonMobil-led gas consortium in Mozambique, will not invest in onshore plants there until authorities guarantee security and social stability, which may take time, CEO Andy Brown told Reuters. This marks a second setback to Mozambique's hopes to develop a major liquefied natural gas hub in the coming years after TotalEnergies suspended its own, separate LNG project in the country, which had been under construction.

Attacks by militants in northern Mozambique's Cabo Delgado region, near the $30 billion Exxon-led Rovuma gas project, have forced hundreds of thousands of people to flee the area. The Mozambican government has said it expects the consortium to take the final investment decision, already postponed from 2020 due to the coronavirus pandemic, this year. The partners have not committed to a decision this year.

The CEO of Galp, which has a 10% stake in the development, said on June 14 that his company did not include investments in Rovuma's onshore facilities in its capital expenditure plan for the next five years. "It means that at the moment it's very hard for us to predict when the time to invest will be," Brown said. "Last year we were really planning to have built Rovuma by 2025 and I don't want to make a promise on Rovuma and then disappoint the market again," he said.

Texas bans state investments in companies it sees as anti-oil

(Bloomberg; June 15) - Texas is drawing battle lines in a fight against investors and companies turning their backs on fossil fuels. Gov. Greg Abbott signed a bill into law on June 14 banning state investments in businesses that cut ties with the oil and gas industry. The underlying message, according to one of the most powerful energy regulators in the state, is simple: Boycott Texas, and we’ll boycott you.

Oil and gas companies, already under pressure to funnel more cash into dividends to please shareholders, are now having to reckon with major corporations from Wall Street banks to Silicon Valley tech giants deeming climate change as a top priority when determining investments. Last month Texas Railroad Commissioner Wayne Christian, a Republican, called on the federal government to issue rules regulating sustainability-focused investments so they don’t discriminate against oil and gas producers.

The new law probably won't lead to massive selling by state funds like the Teacher Retirement System or the Employees Retirement System of Texas. Thanks to a number of amendments to the law, a fund may be able to justify holding stock in, say, Google — which will not provide artificial intelligence services for oil and gas production — by demonstrating that it would be bad for its members if it had to sell. And if an offending company is held indirectly, like through a private-equity fund, there's another exception.

North Dakota approves disposal well for radioactive drilling waste

(Bismarck Tribune; ND; June 14) - North Dakota's oil industry no longer has to ship all its radioactive waste out of state now that a disposal facility in McKenzie County has started operating, and more sites could be on the way. For years companies have tried and failed to gain approval to dispose of radioactive oil field waste in North Dakota. As a result, trucks haul nearly 100,000 tons of the material each year to landfills in other states. Most of it goes to a facility in Montana, though lesser amounts travel to Idaho, Colorado, and Oregon. At times it's been dumped illegally in western North Dakota.

Past efforts to establish disposal facilities in the state never succeeded for a variety of reasons. Residents raised concerns about truck traffic and safety if the waste were to be buried in landfills near their homes, county officials sought time to study the issue, and some companies backed out of their plans.

But one proposal recently managed to secure both local and state approvals, and it's not a landfill. KT Enterprises began disposing of the waste in April by sending it thousands of feet underground at a site near Johnsons Corner east of Watford City. KT Enterprises is operating what's known as a "slurry well." The waste is processed with saltwater, another unwanted by-product of oil and gas production, and the mixture is then injected down a well 7,500 feet deep into rock formations. The disposal method is used by the oil industry in other states, such as Louisiana and Alaska.