Oil and Gas News Briefs
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OPEC+ faces difficult market and political decisions at meeting

(Bloomberg; Nov. 27) – OPEC and its allied oil producers will meet Dec. 1-2 and their job has been made more difficult by President Joe Biden and a new coronavirus variant. The group will gather virtually to decide its production plan for January. A pause to the planned output increase of 400,000 barrels a day was already in the cards as OPEC's analysts see the oil market swinging from a deficit to a surplus in the first quarter 2022. The Saudi energy minister has said the oil surplus could come as soon as this month.

Other, more realistic, assessments of the OPEC+ group's production imply a surplus of supply in early 2022. That alone would be enough to give the producers pause. Now a new variant of the coronavirus has emerged and scared markets. The 10% drop in oil prices Nov. 26 reflects fears of a new wave of lockdown measures and canceled travel plans, just as the holiday season approaches. The emergence of a new strain should make oil producers even more likely to halt the steady addition of barrels in January.

The OPEC+ decision is being complicated by several countries' coordinated release of oil stockpiles. The amount made available will probably be more than 70 million barrels of crude and refined products from reserves in the U.S., India, Japan, the U.K., South Korea and China. OPEC estimates that the release will add roughly 1.1 million barrels a day of supply in January and February to a market that already will be in surplus.

The rationale for pausing OPEC+ output increases looks overwhelming. Adding extra supply to a market that already has more crude than it needs would appear to make it a foregone conclusion. And yet, nothing is that simple when politics are involved. Expect a lot of behind-the-scenes discussions before the OPEC+ meeting on Dec. 2.

OPEC+ could cancel plans for January boost in output

(Bloomberg; Nov. 26) - OPEC and its allies are increasingly inclined to ditch their plan to raise output next week, as a new virus variant triggered oil's worst price crash in over a year. The 23-nation alliance led by Saudi Arabia is leaning toward abandoning a plan for a modest production hike scheduled for January when it meets Dec. 1-2, according to delegates who declined to be identified. The group was already considering a pause after the U.S. and other consuming nations announced the release of oil stockpiles.

"The emergence of a new COVID variant that could spawn renewed shutdowns and travel restrictions is precisely the type of change in market conditions that could cause ministers to deviate from their plan” to add barrels, said Bob McNally, president of consultant Rapidan Energy Group and a former White House official. Crude futures sank more than 10% in both London and New York on Nov. 26 on fears that the new coronavirus variant identified in South Africa could scuttle the fragile economic recovery.

OPEC+ is due to add another 400,000 barrels a day in January as they gradually revive output halted during the pandemic last year. They were already considering pausing that after President Joe Biden orchestrated a multi-national deployment of strategic oil stocks in order to tame gasoline prices and rampant inflation. OPEC’s internal research shows a substantial excess forming early next year.

COVID-induced nervousness sends oil prices down 10%

(Bloomberg; Nov. 26) - Brent crude on Nov. 26 plunged below $75 a barrel for the first time since late September and the U.S. crude benchmark slumped more than 10% as a new coronavirus strain sparked fears that renewed lockdowns will threaten the global recovery in demand. Both benchmarks tumbled with the emergence of the new variant representing the biggest threat to the recovery in oil consumption in several months.

The price plunge is the latest dramatic twist ahead of a key OPEC+ meeting Dec. 1-2. After an alliance of consuming nations announced the release of emergency oil supply earlier this week, the potential severity of the new coronavirus variant is the latest factor OPEC+ will have to tackle when deciding whether to lift output. OPEC+ could choose to pause its current planned output hike of 400,000 barrels a day or even cut output, according to UBS Group. The group will have to consider internal projections, published before the news of the variant broke, that showed an expected surplus early next year.

“This is a huge overreaction in terms of the market,” Amrita Sen, chief oil analyst at consultant Energy Aspects said in a Bloomberg Television interview. “This is the market pricing in the worst possible scenarios.” John Kilduff, founding partner at Again Capital, saw it differently. “It’s a sign the (oil) market got carried away from itself and that we still remain very vulnerable to COVID-19.”

OPEC panel warns that stockpiles release could oversupply market

(Bloomberg; Nov. 24) - OPEC expects that oil stockpiles released by consuming nations could massively swell the surplus in global markets. The projections from OPEC’s advisory body — the Economic Commission Board — come a week before the group and its allies meet to decide whether to increase production. Some delegates from the Organization of the Petroleum Exporting Countries and its partners have indicated they could cancel an output hike scheduled for January if inventories deployed by the U.S. and others overwhelm the market.

The board's projections would bolster the case of OPEC+ countries lobbying for such a pause. The excess in world markets would expand by 1.1 million barrels a day in January and February to 2.3 million and 3.7 million a day, respectively, if 66 million barrels are injected over the two-month period, according to a document obtained by Bloomberg. President Joe Biden orchestrated the multinational stockpile release announced on Nov. 23 to calm raging gasoline prices after OPEC+ — led by Saudi Arabia and Russia — ignored calls to revive production more quickly.

The 23-nation OPEC+ coalition is due to meet on Dec. 1 and 2 to decide whether to add 400,000 barrels a day of production in January as it continues to gradually revive supplies halted during the pandemic.

Much of U.S. crude released from stockpiles could go overseas

(Bloomberg; Nov. 23) - A large portion of the barrels that will be offered from the U.S. Strategic Petroleum Reserve will likely be exported to China and India, traders said. That's because the supplies will consist of sour crude, a type of oil that U.S. refiners are shunning due to its high sulfur content, which makes it more expensive to process. For some foreign buyers, though, U.S. sour crude is attractive because it's much cheaper than the global Brent benchmark.

The U.S. has been selling oil from the SPR regularly this year, and a record volume of those barrels was exported in October. China and India have been actively buying sour crude produced in the Gulf of Mexico. So, it's easy to see why New Delhi and Beijing agreed to participate in the coordinated reserves release led by U.S. President Joe Biden this week.

China noncommittal about its plans to release oil reserves

(Reuters; Nov. 25) - China, the world's largest crude importer, was noncommittal about whether it will release oil from its reserves as requested by Washington. On Nov. 23, President Joe Biden announced plans to release millions of barrels of oil from strategic reserves in coordination with other large consuming nations, including China, India and Japan, to try to cool prices. But without China, the action would have less impact.

There was no further announcement from Beijing after China on Nov. 24 said it was working on its own reserves release, confirming a Reuters report last week that China would release oil according to its needs. Under the plan, the United States will release 50 million barrels, the equivalent of about 2½ days of domestic demand. However, some analysts called the structure of the U.S. release — a combination of 18 million barrels of pre-approved sales and a loan of 32 million barrels — too small and temporary. Goldman Sachs said the volume announced was "a drop in the ocean."

Russia’s oil output growth slows as it runs out of idled capacity

(Bloomberg; Nov. 26) - Russia’s oil output growth has slowed this month, as the nation’s producers are running out of spare capacity. This could give OPEC’s main ally a reason not to oppose any move by the producer group to ditch its plan to raise output next week. Crude oil and condensate output in Russia averaged 10.89 million barrels per day Nov. 1-24, according to data from the Energy Ministry’s CDU-TEK unit, seen by Bloomberg. That is a modest 0.49% increase month-on-month, and compares to a 1% rise for October and 2.8% in September.

Russia’s top producers indicated earlier this month they’re pumping at near full capacity as the Organization of Petroleum Exporting Countries and its allies ease output curbs. OPEC and its allies are increasingly inclined to ditch their plan to raise output, as a new virus variant triggered oil’s worst crash in over a year, according to delegates who declined to be identified.

Russian producers have been raising output mainly by restoring production at wells closed in 2020 or increasing flows from operating wells. To further ramp up output, they will need to focus on drilling new wells. Earlier this week Lukoil, the No. 2 producer in Russia, said it has restored its production to almost 90% of pre-crisis level of the first quarter 2020. This echoed Gazprom Neft, which said last week it won’t have any idled oil output capacity by the end of the year and will increase drilling rates to raise output.

Russian oil company explores far northern Arctic peninsula

(The Barents Observer; Norway; Nov. 26) – Russian oil company Gazprom Neft is exploring the resources of the far northern Gydan Peninsula. The company’s goal is to open the world's northernmost mainland oil province. “Not many Russian oil companies are ready to take on poorly explored and undeveloped regions, and launch prospecting projects from zero,” the company said in a presentation of its latest Arctic adventure. Gazprom Neft is a subsidiary of natural gas company Gazprom.

The two license areas are located in the Gydan Peninsula, near the mouth of the Yenisey Bay, about 1,000 miles from existing infrastructure hubs. A cooperation deal was signed with Shell in December 2020, and the two companies now have a 50% stake each in the joint venture to explore the area. In late summer 2019, as much as 36,000 tons of construction materials were shipped to the remote Arctic coast. Three tankers, an icebreaker and 46 barges worked the operation, the Gazprom Neft said.

By early September 2020, a working village for 100 people was erected, equipped with electricity, telephone and internet connection. And a sauna. A first exploration well is reported to have been drilled in 2020, and additional seismic mapping was undertaken in 2021. Risks are high, but in case of success, the partners can expect “a major payoff," Gazprom Neft said. A discovery in the area will be followed by the building of a new oil terminal on the far northern shores of the Gydan Peninsula.

Report recommends higher federal royalty rates, new limits on lands

(The Associated Press; Nov. 26) - The Biden administration on Nov. 26 recommended an overhaul of the nation's oil and gas leasing program to limit areas for development and raise costs for oil and gas companies to drill on public land and offshore. The long-awaited report by the Interior Department stops short of recommending an end to oil and gas leasing on public lands, as many environmental groups have urged. Officials said the report recommendations would lead to a more responsible leasing process.

The report completes a review ordered in January by President Joe Biden, who directed a pause in federal oil and gas lease sales in his first days in office, citing worries about climate change. The report seeks a middle ground that would continue the multibillion-dollar leasing program while ending what many officials consider overly favorable terms for the industry. It recommends hiking federal royalty rates for oil and gas drilling, which have not been raised for 100 years. The rate of 12.5% that developers must pay to drill on federal lands is significantly lower than many states and private landowners charge.

The report also said the government should consider raising bond payments that energy companies must set aside for future cleanup before they drill new wells. Bond rates have not been increased in decades, the report said. It also recommended that the Bureau of Land Management, an Interior Department agency, should focus potential leasing on areas that have high potential for oil and gas resources and are in proximity to existing oil and gas infrastructure.

Keystone XL developer files $15 billion claim against U.S. government

(Bloomberg; Nov. 22) – The developer of the Keystone XL oil pipeline is seeking to recoup more than $15 billion in damages connected to President Joe Biden's decision to yank a permit for the border-crossing oil pipeline even after construction began. With a request for arbitration filed Nov. 22, Calgary-based TC Energy formally opened one of the largest trade appeals ever against the U.S. government and asked to put its long-running dispute over Keystone XL in front of an international arbitration panel.

The claim was filed under provisions of the North American Free Trade Agreement that allow foreign companies to challenge U.S. policy decisions. The decision to revoke the permit "was unfair and inequitable," TC Energy said in its filing, saying the U.S. had put Keystone XL on a 13-year "regulatory roller coaster." The line, which would have moved up to 900,000 barrels per day of Canadian crude to U.S. refineries, was rejected by

President Barack Obama after he concluded it would exacerbate climate change. It was revived by President Donald Trump, only to have Biden reject it on his first day in office.

While the new U.S.-Mexico-Canada Agreement that replaced NAFTA limited the use of so-called investor-state dispute settlement systems, arbitration is still temporarily grandfathered for some legacy investments. TC Energy suspended construction on Keystone XL and terminated the project after Biden revoked its permit. TC Energy said it has no intention of reviving Keystone XL, regardless of the outcome of the trade case.

U.S. natural gas production climbs to nearly 2-year high

(S&P Global Platts; Nov. 24) – U.S. natural gas production surged to more than 95 billion cubic feet per day on Nov. 24, hitting a nearly two-year high that comes as operators stage a prewinter push that has recently begun to cool the high prices in the forward gas market. The new high caps an almost eight-week drive by producers to lift output from stubbornly depressed levels in September, when production averaged just 90.1 bcf a day following extensive damaged caused off- and onshore by Hurricane Ida.

The recent surge comes almost entirely from a handful of onshore fields. In Appalachia, production climbed to a record-high 34.7 bcf a day earlier this month after a few producers there adjusted fourth-quarter guidance to reflect anticipated gains in output ahead of the start-up to a gas pipeline expansion project. In November, output from the Texas-Louisiana Haynesville Shale has set successive record highs at more than 14.1 bcf per day, S&P Global Platts Analytics data showed.

In the Permian, output has averaged nearly 13.6 bcf a day this month to date, just 90 million cubic feet below a monthly record in March. The uptick comes as oil producers in West Texas continue to ramp up drilling in response to elevated prices for oil and refined products. In Appalachia, the Haynesville, Permian and other basins, historically high prices and strong internal rates of return have been giving producers a big incentive to ramp up drilling, especially ahead of the upcoming winter heating season.

Cheniere signs up another Chinese buyer for U.S. LNG

(Reuters; Nov. 24) - U.S. liquefied natural gas producer Cheniere Energy said Nov. 24 its marketing arm agreed to sell LNG to a unit of Chinese natural gas distributor Foran Energy Group for 20 years starting in January 2023. Analysts said the deal should move Cheniere closer to making a final investment decision to build the Stage 3 expansion at its Corpus Christi plant in Texas, with the decision expected in 2022.

The deal is one of several announced in recent weeks as LNG buyers seek to lock in long-term prices and supplies of the fuel as global energy shortages have boosted prices to record highs. Over the past couple of months, Cheniere has signed agreements to sell LNG to units of French energy company Engie, Anglo-Swiss mining and commodities trading firm Glencore, Chinese gas distribution company ENN Natural Gas, and Chinese chemical and fertilizer producer Sinochem.

Cheniere said Foran will buy about 300,000 tonnes per year of LNG at a price indexed to the U.S. Henry Hub gas benchmark in Louisiana, plus a liquefaction fee. Expansion at Cheniere's Corpus Christi terminal would add up to seven mid-scale liquefaction trains that would produce 10 million tonnes of LNG annually. The plant already has capacity to produce 15 million tonnes per year. Analysts at Tudor, Pickering, Holt and Co. said in a note Nov. 23 that Cheniere has sold about 80% of the expansion capacity.

Cheniere starts production at Louisiana terminal's 6th LNG unit

(S&P Global Platts; Nov. 24) - Cheniere Energy has produced the first LNG from the sixth liquefaction train at its Sabine Pass terminal in Cameron Parish, Louisiana, one year ahead of the previous completion schedule, the company said Nov. 23. Contractor Bechtel Energy will transfer the train to Cheniere at the substantial completion stage, which should occur in the first quarter of 2022, according to a news release.

The completed train will boost the production capacity of Sabine Pass, which has had five liquefaction trains in operation at 5 million tonnes capacity per year each, to roughly 30 million tonnes. It will ramp up Cheniere Energy's total U.S. LNG production capacity to 45 million tonnes per year, which includes production capacity of 15 million tonnes per year at the company's Corpus Christi export facility in Texas.

Cheniere also has been securing LNG supply deals to underpin a 2022 final investment decision for the fully permitted Stage 3 expansion of its Corpus Christi terminal, which includes development of an up to an additional 10 million tonnes production capacity. Cheniere executives on the company's most recent earnings call said the latest deals were driven by buyers' urgency to secure long-term contracts amid ongoing high LNG prices in Europe and Asia.

Japan's top power generator will not renew long-term LNG contract

(Reuters; Nov. 25) - Japan's biggest power generator, JERA, will not renew its long-term contracts for the Qatargas I liquefied natural gas project which will expire next month, its president said on Nov. 25. "It has become difficult for us to continue with large, long-term LNG contracts given the development of the global LNG market, global decarbonization push, the liberalization of the domestic electricity and gas markets," JERA President Satoshi Onoda told a news conference.

JERA, a fuel and power-generation joint venture between Tokyo Electric and Chubu Electric, imports 5.5 million tonnes a year from the Qatar project via long-term contracts, including a 25-year pact signed between Chubu Electric and Qatargas in 1997, said a JERA spokesperson. JERA, however, does not plan to give up all of its long-term LNG supply contracts, Onoda said, adding that its decisions would be based on an assessment of contractual terms and the situation when contracts come up for renewal.

For JERA, one of the world's biggest LNG buyers, which bought about 30 million tonnes of LNG in the financial year that ended March 2021, the supply from the Qatargas 1 project accounts for nearly 20% of its total imports. "But there is no need to worry about shortage in procurement as our JERA Global Markets trading unit deals with a large volume of supply and we can also bring in LNG from the U.S. Freeport LNG project," Onoda said. JERA said earlier this month it will pay about $2.5 billion for a 25.7% stake in Freeport LNG to secure long-term supplies of gas for power generation.

Underinvestment hinders Southeast Asia upstream gas sector

(S&P Global Platts; Nov. 24) - Underinvestment in Southeast Asia's upstream sector and steady declines in mature oil and gas fields are affecting the region's top gas producers, forcing liquefied natural gas exporters to cut back on supply to top customers in North Asia, most recently for cargoes to meet peak winter demand.

The speed at which new gas fields can be brought online is already hampered by resource nationalization policies and the withdrawal of international oil majors, leaving national oil companies like Malaysia's Petronas, Indonesia's Pertamina and Thailand's PTTEP to deal with the uphill task of maintaining supplies. New production is further challenged by the backlash against fossil fuels, as financial institutions make it harder to fund exploration and production, and as new fields are delayed by the need for carbon capture and storage investments to offset the large CO_2 content of these assets.

Such issues hinder Southeast Asia's ability to meet Asia's LNG demand and its own domestic gas needs, while increasing the dependence of large gas-dependent economies like China, Japan and South Korea on long-haul suppliers like the U.S. and Atlantic Basin gas exporters. Malaysia, Indonesia and Brunei account for about 12% of the world's LNG exports and nearly a third of the LNG produced in Asia-Pacific, dwarfed only by Australia. Papua New Guinea is the other big LNG exporter in the region.

Japanese electric utilities turn to fuel oil to get through winter

(Reuters; Nov. 24) - Japanese refiners are dusting off unused supply chains for fuel oil and getting coastal vessels and storage tanks ready after receiving requests from electric utilities to supply more fuel oil this winter amid a global crunch for power generation fuels. Japan narrowly averted blackouts last winter as LNG demand and prices soared during a cold snap. This year may be even tighter as strong demand and restocking in Europe and Asia draws down gas supplies and props up prices.

Highly polluting fuel oil, used mainly to power ships, is being considered as a backstop in case of natural gas shortages for the first time since the aftermath of the Fukushima nuclear plant disaster in 2011. The nation's top two refiners Eneos Holdings and Idemitsu Kosan are getting more orders for fuel oil from electric utilities for this winter to ensure adequate power supply during the peak demand season, their executives said.

But Japan, a former refining powerhouse, has cut its outdated fuel-making capacity so severely in recent years that it may be unable to produce as much fuel oil as needed, said Fereidun Fesharaki, chairman of Facts Global Energy. "If there is a problem with one of the nuclear plants, you can't switch on to fuel oil like last time to save the Japanese economy," he said. Japan used to rely heavily on oil-fired power plants in the 1970s, with heavy oil accounting for about a half of refinery demand. But that dropped to less than 5% by 2019 as Japan diversified fuel sources to coal, LNG and nuclear.

Floating LNG production units gain interest

(Houston Chronicle; Nov. 26) - Floating liquefied natural gas plants are drawing increasing interest, and are expected to provide 5% of global LNG production by 2030, up from about 1% today, according to industry analysts. Five floating LNG plants are operating around the world, and four are under construction or planned, according to the Norwegian consultancy Rystad Energy.

Unlike their onshore counterparts, floating LNG plants are mobile; they can be moved to exploit new sources of gas that would be out of reach for their land-based counterparts. Energy companies are considering these LNG plants that operate in the ocean as a way to deliver gas to countries that otherwise might not have access to it, displacing coal that dominates the energy mix in Asia Pacific and African nations. FLNGs also provide an alternative to venting or burning off gas that is released during oil production.

Oil producers often view the associated gas — particularly if pipelines are not readily available — as a waste product since it is typically not as valuable as crude. Floating LNG plants, however, can turn that waste product into a commercial one.

Malaysia's national oil company Petronas operates two floating LNG plants off Malaysia. Shell operates its Prelude FLNG offshore Western Australia. The Belgium Exmar has its unit off the coast of Argentina, and Golar LNG operates a floating plant near Cameroon, in West Africa. Two other FLNGs, one controlled by Italian energy company Eni and the other by BP, are scheduled to begin operations in the next two years.