Oil and Gas News Briefs
Compiled by Larry Persily
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OPEC+ agrees to another output boost, but market doubtful

(Bloomberg; Feb. 2) - OPEC and its allies agreed on Feb. 2 to restore more halted oil production, yet the group's increasingly obvious struggles to fulfill its supply pledges have left markets fearful of a potential shortfall. The 23-nation coalition led by Saudi Arabia rubber-stamped a nominal increase of 400,000 barrels a day for March, but data continue to show most members failing to provide their share of even this modest boost. Lack of investment or militia unrest are taking a toll on exporters from Nigeria to Libya, placing an increasing strain on the capacity reserves of other Mideast countries.

The group's shortcomings have helped propel prices to a seven-year high above $90 a barrel, as supplies fail to keep pace with the vigorous post-pandemic rebound in fuel consumption. With spare capacity now largely confined to Saudi Arabia, the United Arab Emirates, Iraq and Kuwait, traders are growing anxious over what's available to cover any disruptions — whether deeper losses in Libya, another attack like last month's drone strike in Abu Dhabi, or tensions between Russia and the West over Ukraine.

OPEC and its partners ratified their scheduled increase at a short online meeting. The group has made identical promises for several months, however, and been unable to fully implement them. As doubts grow about sufficient supplies this quarter, forecasts are piling up for a return to prices of $100 a barrel or more. "If prices continue their precipitous rise, we see a path to Saudi Arabia reprising the regulator role and ramping up output," said Helima Croft, chief commodities strategist at RBC Capital Markets.

BP has a lot at stake in Russian oil and gas

(Bloomberg; Jan. 31) - Of all the international oil majors, BP potentially has the most to lose if the situation in Ukraine triggers a crisis between Russia and the West. The London-based firm owns about a fifth of Rosneft, the state-controlled energy giant that's run by a close ally of President Vladimir Putin. The corporate relationship, which already sits uneasily alongside BP's plans for net-zero carbon, could become untenable if a Russian invasion of Ukraine results in harsh economic sanctions by the West.

Yet, if history is any guide, BP's exposure may be mitigated by the fact that most European nations have an even greater dependence on Russia. The kind of sanctions that would force a rupture from Rosneft could also deprive the region of vital energy supplies. "The energy bottom line is in Putin's favor," said Peter Rutland, a professor at Wesleyan University in Middletown, Connecticut. "Does the Biden administration really want to start increasing the pain for European energy consumers by hitting oil and gas companies that are doing huge amounts of business in Russia?"

Sanctions imposed in the wake of Putin's annexation of Crimea in 2014 stopped short of targeting the movement of Russia's oil and gas. Even after the U.S. sanctioned Rosneft CEO Igor Sechin, it did not stop then-CEO of BP, Bob Dudley, from sitting on Rosneft's board. "The importance of Rosneft to BP should not be underestimated," Russ Mould, a director at AJ Bell, an investment platform, said. At the end of 2020, BP's book value for its stake in Rosneft was $12.9 billion, a "significant" figure for a firm with $85.6 billion net assets, he said. Rosneft accounts for about a third of BP's oil and gas production.

Exxon and Chevron ramp up Permian Basin oil production

(Forbes; Feb. 1) - Last month, the U.S. Energy Information Administration projected that overall domestic crude production would rise by 1 million barrels per day in 2022. With the International Energy Agency estimating that global oil demand will rise by 3.3 million barrels per day this year, consumers are going to need all the added production they can get to avoid major increases in gasoline and other energy-related costs.

If U.S. energy giants ExxonMobil and Chevron have anything to do with it, the Permian Basin of Texas and New Mexico will play a big role in meeting the targets. On Jan. 28, Chevron announced during its investor presentation that it plans to raise its Permian production by 10%, which would amount to an additional 60,000 barrels per day. Not to be outdone, Exxon detailed plans during its own presentation to raise its Permian flow by 25% in 2022, increasing its overall output by 100,000 barrels per day.

Chevron CEO Mike Wirth told analysts that the company's global production growth this year would average just 3%, adding that Permian well economics are among the best in the world. ExxonMobil's plan for a 25% Permian production boost comes on the heels of 2021, when it was also able to raise its output by 100,000 barrels per day. Together, Chevron and Exxon control roughly 20% of oil production in the Permian. On Jan. 18, the EIA projected the Permian will achieve a new record high of 5.076 million barrels per day this month. That production level would rank the region as the fourth-largest oil producing nation on Earth, behind only the U.S., Saudi Arabia and Russia.

Reuters poll puts Brent at $79.16 average this year

(Reuters; Jan. 31) - Oil prices will build on a strong start to the year with geopolitical risks to supply complementing a strong demand rebound as fears over the impact of the Omicron variant fade, a Reuters poll showed on Jan. 31. A survey of 43 economists and analysts forecast Brent crude would average $79.16 a barrel this year, the highest projection for 2022 thus far and a notable increase from December's $73.57 consensus. U.S. crude was forecast to average $76.23 in 2022, up from $71.38 forecast last month.

"Given how tight markets are, oil certainly can rally above $100, particularly if OPEC+ supply increases continue to lag behind their target, U.S. producers fail to respond, or if the Ukraine-Russia crisis worsens," the Economist Intelligence Unit said. Demand was seen growing by 3 million to 5 million barrels per day in 2022, with analysts seeing a muted impact from the current COVID-19 surge.

Brent futures topped $90 a barrel for the first time since 2014 last week on concerns over the likely supply hit from a standoff between the West and Russia, one of the top oil producers, over Ukraine. Threats to the UAE from Yemen's Houthi movement also exacerbated supply concerns. Oil could gain further if Russia were to invade Ukraine, and sanctions could impact energy exports, said IHS Markit analyst Marshall Steeves.

Total and partners will go ahead with $10 billion Uganda oil project

(Bloomberg; Feb. 1) - TotalEnergies and its partners reached a final investment decision worth over $10 billion to produce Uganda's oil discoveries and build a pipeline that will turn the landlocked East African nation into a significant crude exporter. The French major, along with China National Offshore Oil Corp. (CNOOC) and state-owned Uganda National Oil Co., announced the agreement that will bring output from fields near Lake Albert and transport them through the planned East African Oil Pipeline.

The government and companies plan to move ahead, with production expected in 2025. Output is projected to peak at 230,000 barrels a day. Uganda considered the prospect of developing the fields in 2006, when the first commercial discoveries were made by Tullow Oil. The London-based explorer had hoped to begin exports as early as 2015, but ultimately sold its stake in the fields. Delays have plagued the development, ranging from changing the pipeline route to reaching a deal with the government over taxes.

That changed when a range of agreements were completed last year. The companies will develop the fields and a $4.2 billion heated, 897-mile pipeline to transport the waxy crude to the port of Tanga in Tanzania. Total owns a 62% stake in that development. UNOC and Tanzania Petroleum Development Corp. each have 15%, with CNOOC at 8%. At a cost of $10 a barrel of oil equivalent to develop the project, it meets Total's economic criteria and will generate almost a third of the company's regional free cash flow, said Juma Mlawa, senior analyst at consultancy group Wood Mackenzie.

[Trading houses benefit from release of oil from strategic reserves]

(Bloomberg; Jan. 28) - The release of oil from U.S. strategic reserves has been a boon for trading houses, many of which participated in the government program for the first time in years thanks to a market structure that uniquely benefits them. Macquarie and Trafigura were among the traders awarded oil from the Strategic Petroleum Reserve in an exchange agreement with the Department of Energy to replace the barrels in the future. The traders are set to take advantage of so-called backwardation, a price structure where the cost of oil for immediate delivery is higher than in the future.

The Biden administration released oil from the reserves in a bid to lower surging fuel costs that are adding to the nation’s worst bout of inflation in nearly 40 years. The release accounts for about six days of supply to U.S. Gulf refiners. The trading firms can sell the oil immediately to refiners for current prices — West Texas Intermediate crude is trading in the high $80s — and are expected to pay back with oil in some cases by 2024, which is currently priced about $20 a barrel less on the forward curve.

The traders can lock in profits by buying call options that will give them the right to buy WTI in the high $60s when it’s time to return the crude, according to traders. Of the 32 million barrels of crude offered from U.S. reserves, at least half was taken by trading houses. Trafigura and Macquarie both declined to comment.

[Developer will start construction on Louisiana LNG project in April]

(Reuters; Feb. 1) - Tellurian plans to start construction on its $16.8 billion Driftwood LNG plant in Louisiana in April, Chairman Charif Souki said on Feb. 1. The company has access to enough capital to handle the first year of construction, Souki told Reuters. "You're going to have to wait until we put our financial statements out in about two weeks," he said in response to a question on capital available to finance the work.

The first phase of construction is designed to produce 11 million tonnes per year of LNG. First delivery could occur in 2026, Souki said. Future phases could bring the plant's capacity to 27.6 million tonnes per year. Project financing of $12 billion for the next five years will consist of about two-thirds debt and one third equity, he said. “Given everything that is happening in the world, it is critical that the projects are accelerated as much as possible,” Souki said.

Driftwood would be the first LNG project for Houston-based Tellurian. The company last year lined up three medium-term supply contracts with Shell and commodity traders Gunvor and Vitol. The deals marked commercial progress for Tellurian after a two-year lull in the industry that saw only a few long-term contracts signed for U.S. LNG supplies. Tellurian said the 10-year off-take commitments, totaling 9 million tonnes per year, are sufficient to cover the first phase of the Driftwood project.

About two-thirds of U.S. LNG in January went to Europe

(Reuters; Feb. 1) - Europe last month remained the top destination for shipments of U.S. liquefied natural gas, according to Refinitiv data, outpacing exports to Asia for the second month in a row. About two-thirds of U.S. LNG volumes went to Europe last month, compared to around 61% in December when sky-high European prices and demand drove U.S. LNG exports to a record, Refinitiv data showed.

The crisis over the Ukraine has highlighted Europe's dependency on Russia for much of its gas and spurred buyers to seek supplies elsewhere. LNG in Europe last month traded about $30 per million Btu amid concerns that cheaper Russian gas supplies were failing to keep up with demand. This week, the European LNG benchmark traded on the Dutch exchange cooled down in price, falling to $27.59, below the Japan Korea Marker price for Asia spot gas at $29.12, according to consultancy Rystad Energy.

Total U.S. LNG exports to all destinations were 7.3 million tonnes in January, up from a record 7.14 million in December, preliminary Refinitiv data showed. Around 13% of U.S. LNG volumes shipped last month went to Asia, down from about 25% in December, according to preliminary data from Refinitiv. Shipments to Latin America accounted for about 9% of the month's volume, the data showed.

Diverting more LNG to Europe could create shortages elsewhere

(Bloomberg; Feb. 2) - Energy-rich countries from Qatar to Azerbaijan have all pledged emergency gas supplies to Europe, but the region is quickly figuring out it can’t replace top supplier Russia. Ongoing tensions over Ukraine and the threat of a potential conflict interrupting flows to Europe have overshadowed the continent’s gas market in recent weeks, causing volatile price swings. War could interfere with the massive volumes that Russia sends to the continent, about a third of which come through Ukraine.

To lessen the risk of supply breaks, the European Union is talking with major producers, seeking partnerships and even potential fuel swaps with Asia, where the market is twice the size of the EU. Recent liquefied natural gas cargoes have helped to ease tightness, as has mild weather, but getting more gas from elsewhere could spread the crisis. “Europe has no alternative to Russian gas,” said BCS Global Markets senior analyst Ron Smith. “You would have to divert half of the LNG that Asia consumes in order to replace Gazprom. That would mean massive energy shortages all across Asia.”

“This idea that ‘we will fill the gap with LNG’, no, you can’t. It’s physically impossible to do, there’s not enough LNG in the world to do that,” Smith said. The gas the EU needs can’t be replaced by any one supplier without disturbing cargoes to other buyers, Qatar’s Energy Minister Saad Al-Kaabi said after a call with the EU Commissioner for

Energy Kadri Simson on Feb. 1. He added that Doha's supply contracts are "sacrosanct in Qatar," and the nation's priority is to fulfill the needs of its existing customers first.

Lack of options forces New England to pay dearly for LNG imports

(Forbes commentary; Feb. 1) - New Englanders had reason Jan. 31 to feel a little more European than usual. According to U.S. Department of Energy data, they were paying a spot price of $30.5 per million Btu for natural gas. This is an absurd price, in line with what Europeans, facing their worst energy crisis in a generation, have been suffering in recent months. To put it in context, $30.50 for natural gas is the equivalent of paying $180 for a barrel of oil, or 20 cents per kilowatt-hour for electricity. In other words: nuts.

How much are Bostonians getting shafted on natural gas? By comparison, the spot price of gas on the Gulf Coast of Texas and Louisiana on Jan. 31 was $5.50 (the energy equivalent of about $33 oil). This spread is exceptionally wide, nearly unprecedented. But it's easily explained — by the perennially misguided energy policy in New England. Just 200 miles to the south, beneath western Pennsylvania, lay the nation's biggest gas field — the Marcellus shale. From practically nothing 15 years ago, the Marcellus now provides roughly a third of America's gas supply, more than 30 billion cubic feet per day.

But little Marcellus gas flows to New England because NIMBYs and politicians have blocked pipeline construction. Yet the region still relies on cleaner-burning gas for power plants, nearly all of it aboard ships from Trinidad & Tobago, Norway and Russia. There are no U.S.-flagged tankers to transport liquefied natural gas from Gulf or East coast export terminals to New England, leaving the market entirely to foreign ships delivering foreign LNG. Which is why New England is paying through the nose for gas. Or rather, they are paying the international price, in line with spot prices in Europe and Asia.

IEA expects Europe's gas demand will decline this year

(Reuters; Jan. 31) - European gas demand is expected to decline this year as continued high prices make coal more competitive for power generation, while Asian demand growth could slow, the International Energy Agency said on Jan. 31. Last year, European gas consumption increased by an estimated 5.5% to 19.5 trillion cubic feet. However, demand is expected to fall by about 4.5% this year, partly driven by reduced burning of gas in the power sector which could fall by 6% from 2021, the IEA said.

"Gas-fired power generation is expected to decline amid the strong expansion of renewables, while high gas prices continue to weigh on its competitiveness vis-à-vis coal-fired generation," the IEA said. European and Asian gas prices climbed to record highs last year, while U.S. prices rose to the highest in a decade, driven by reduced supply, low storage levels, infrastructure outages and competition for LNG cargoes.

Although European coal and EU carbon prices also jumped, they lagged behind the spike in gas prices, causing short-term costs to shift in favor of using coal to generate electricity. This year, European gas and Asian LNG prices are expected to average $26 per million Btu and $27, respectively — both all-time high annual averages — due to continued low stock levels and reduced supply, the IEA said. High prices are expected until the middle of the year and then could decline if supply improves, the IEA said.

IEA forecasts global LNG demand growth rate to slow down in 2022

(S&P Global Platts; Jan. 31) - Global LNG trade growth is expected to slow to 4% in 2022, following year-on-year growth of 6% last year on the back of strong economic recovery in Asia, the International Energy Agency said Jan. 31. In its latest quarterly gas market report, the IEA said last year's LNG demand expansion in Asia is expected to slow this year and the drought-driven rise in South American imports is set to reverse. Global trade in 2020 was estimated at 356 million tonnes by industry group GIIGNL.

A 6% increase last year as estimated by the IEA suggests total trade in 2021 of some 377 million tonnes and forecast growth to around 392 million this year. In its report, the IEA said Asia would account for all the net growth in LNG imports in 2022. "China remains the single largest country contributor to import growth, but its growth rate drops to 9% in 2022 due to the ramp-up of pipeline flows from Russia and the overall slowdown in gas demand growth," the IEA said.

India's LNG imports are projected to return to their 2020 levels after a temporary dip in 2021, and register a 12% increase in 2022, the agency said. It added that LNG inflows to emerging Asia are set to expand by 27% this year, driven by the region's post-pandemic demand recovery, domestic production declines and planned import capacity additions. European LNG imports are also expected to remain elevated in 2022 — although likely below 2019-2021 levels — to meet the region's high restocking needs.

Russia could reach record gas production, but exports uncertain

(Bloomberg; Jan. 31) - Russia's natural gas production is forecast by the International Energy Agency to rise to a record high this year, even as Europe struggles with its worst energy crisis in decades. The country's output and exports have been closely scrutinized by traders and European policymakers as gas prices in the region climbed to unprecedented levels this winter, contributing to inflation and a cost-of-living crisis. Gazprom's decision to cap deliveries to Europe have partly been blamed for the crisis.

Russia is set to pump almost 27 trillion cubic feet of gas this year, the IEA said in its quarterly report on Jan. 31. That would be the highest annual output in more than 30 years, based on governmental statistics. But higher production doesn't always mean more exports. Russian gas output last year reached a record volume, but Gazprom, the nation's pipeline-gas export monopoly, sold just over 6.5 tcf to its key overseas markets. That's only the fourth-highest yearly exports for the company.

Gazprom has said its shipments to Europe are fully in line with contract obligation and requests from clients, but flows were markedly below the seasonal levels in the last quarter of 2021. With Russia sticking to its strategy of capped deliveries to the continent in the first weeks of this year, market watchers are divided over whether flows will continue to stay low through the remainder of the heating season.

Fear of colder weather pushes up LNG prices in Asia

(Reuters; Jan. 31) - The worst fears of Asia's liquefied natural gas markets for a shortage over winter failed to materialize, but the subsequent feeling of comfort may be about to come to an end. Much of the focus of the global natural gas market in recent weeks has been on the rising tensions between Russia and Ukraine, and the potential impact on Russian supplies to Europe in the event of a serious escalation.

This has served to keep prices in Europe high, as well as drawing more LNG cargoes to the continent, especially from swing supplier the United States. Asia has so far been relatively unfazed by the Ukraine situation, with the spot price of cargoes for delivery to North Asia dropping 52.4% from a record $48.30 per million Btu in the week to Dec. 23 down to $23 by Jan. 21. However, last week the index jumped 17.4% to $27.

The immediate catalyst for the move higher in spot prices would appear to be colder weather in Japan, which vies with China for the title of the world's biggest LNG importer. Refinitiv weather forecasts predict that the colder weather will spread in coming weeks over much of North Asia, which in addition to Japan and China also includes the world's No. 3 importer South Korea. A further worrying signal is that Japan has been drawing down on its LNG inventories in recent weeks.

Return to service delayed for Norwegian LNG plant

(Reuters; Jan. 31) - Norway's Hammerfest LNG plant faces a further delay to restarting production after a fire in 2020, operator Equinor said on Jan. 31, delivering a fresh blow to hopes of securing more natural gas for Europe to help reduce surging prices. The plant, operated by Equinor, is now expected to resume output May 17, more than six weeks later than the previous goal of restarting March 31.

"We work systematically to deliver on the plan we established, but challenges related to COVID-19 restrictions require that we need more time to prepare the plant for safe and stable start-up and operations," Equinor senior vice president Grete Haaland said in a statement. Europe's only large-scale LNG plant, at Melkoeya Island just outside the Arctic town of Hammerfest, can process about 630 million cubic feet of gas per day when fully operational, typically delivering six LNG cargoes per month.

The delay comes as Europe is seeking additional sources of gas to alleviate a shortfall of imports from Russia and any further potential supply shock that could result from a Russian invasion of Ukraine. The Hammerfest plant has been out of service since September 2020 following a blaze that raised concerns over safety practices. Extensive work had been carried out since the fire, including checking more than 22,000 components and replacing 113 miles of electrical cables, Equinor said.

Total wants to restart Mozambique LNG construction this year

(Reuters; Jan. 31) – TotalEnergies CEO Patrick Pouyanne said on Jan. 31 the French firm aims to restart its $20 billion liquefied natural gas project in the north of Mozambique that was halted by an insurgent group with links to Islamic State almost a year ago. The attack on the town of Palma, on the doorstep of the project and home to many gas workers, prompted TotalEnergies to withdraw all staff and declare force majeure, putting a halt to all work until security was restored.

"When I will see that life is back to normality, which means having some state services and population, then the project can restart," Pouyanne said on a visit to Mozambique on Jan. 31. "My objective is that we will restart in 2022." TotalEnergies had intended for the project to produce its first cargo in 2024. "A lot of progress has been done and frankly in a very short period of time," Pouyanne told reporters, after signing a deal to train 2,500 young Mozambicans so that they can help them contribute to the project, such as growing vegetables which they can then sell to feed workers.

However, more steps are needed to ensure the achievements are sustainable, he said, adding that this also includes a return to normality in towns that were left largely abandoned, without any public services. Pouyanne said he would like to visit these towns, including Palma and Mocimboa da Praia to its south, on his next visit. The March 2021 attack prompted Mozambique to accept foreign troops from Rwanda and a bloc of southern African nations to help quell the insurgency. While the measures have helped Mozambique regain lost ground, clashes with insurgents and smaller attacks continue.

Alberta Indigenous group competes for carbon-capture project

(CBC News; Canada; Jan. 31) - A group of Indigenous communities in Northeast Alberta is competing with big name oil and gas companies to secure the rights to construct and operate the first large-scale, regional carbon-capture and storage facility in the province. Bids are due Feb. 1 to build the first of what the Alberta government hopes will be many carbon-capture hubs throughout the province — each one likely costing billions of dollars and requiring several years to develop and build.

The centers would collect carbon emissions from any nearby facility that emits greenhouse gases — such as a refinery or fertilizer plant — and store the gases underground. Prominent oil and gas companies, including Shell, Suncor and TC Energy, are among those that have also expressed interest for several months in being chosen by the Alberta government to build and operate such a facility.

The government has picked an area northeast of Edmonton for the first project, amid multiple heavy-emitting fuel, fertilizer and chemical facilities. The province will announce the winning proposal in February. Chief Greg Desjarlais of the Frog Lake First Nation, 125 miles east of Edmonton, describes it as a historic opportunity. "We have to leave Mother Earth in a state where our kids and grandkids can flourish and have fresh water and breathe fresh air. Secondly, (it's) economic reconciliation with the First Nations."

There is a feeling by many First Nations communities in the province that they haven't benefited from oil and gas development nearly as much as they should have, the chief said, and this is an opportunity to help rectify the situation.

European nations line up against green label for gas and nuclear

(Bloomberg; Feb. 1) - The Netherlands, Austria, Sweden and Denmark made a last-ditch plea to the European Commission not to grant some natural gas projects the bloc's green label, highlighting divisions over what energy sources should be favored during the transition away from fossil fuels. "The lack of scientific evidence for including fossil gas in the (classification) … should lead to a reconsideration of the proposal by the European Commission," wrote energy ministers from the four countries.

Europe's unprecedented energy crisis has underscored the challenges of phasing out fossil fuels and nuclear power when renewable energy output and storage are still not enough to replace more traditional sources of energy. Gas is seen as a way of helping wean countries like Poland off coal, which pollutes much more. The objections of the four countries are unlikely to derail the commission's plan to provide some gas and nuclear projects a green label so long as they are approved by a deadline and adhere to other emissions and transition criteria, such as replacing coal-fired power stations.

Once adopted, member states and the European Parliament will be given a chance to reject the proposals, but the bar to do so is high. At least 20 of the EU's 27 member states — representing no less than 65% of the bloc's population — would need to unite against the plan for it to fail. Equally, a majority in Parliament could also veto the plans, though it's unlikely that enough lawmakers will vote against it.