Oil and Gas News Briefs
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Permian Basin short of workers and equipment to boost production

(The Wall Street Journal; April 28) - America's most prolific oil field is running out of the workers, cash and equipment needed to produce more oil. In the Permian Basin, the oil-rich region in West Texas and southeastern New Mexico, drillers are facing long delays and steep competition for everything from roughnecks to steel to fracking pumps. The region is the only place where U.S. oil output is expected to grow significantly this year.

But mounting supply-chain crunches are putting a ceiling on how much more frackers can produce, said energy executives and analysts, despite the highest oil prices in seven years. Unlike the last time oil fetched about $100 a barrel, the service industry of steel suppliers, drilling rig operators and fracking companies that develop shale wells is coming into the price cycle malnourished. Service companies mothballed large fleets of equipment during the pandemic and investors remain wary of the industry, leaving companies short of capital and reluctant to invest in new fracking fleets and drilling rigs.

The bottlenecks have forced some producers to pause operations for days, weeks or even months while they wait for steel pipe casing, or to replace workers, many of whom haven't returned to the industry since the pandemic. In some cases, entire crews have left projects in search of higher wages. "If somebody walked in and put a pile of money on the table and said, 'Drill me a well next week,' it isn't going to happen," said Jamie Small, president of producer Element Petroleum III. "You just can't get the stuff to do it."

Steve Burleson, president of Burleson Petroleum, said he may have to wait at least nine months for an underground electric cable for parts of his oil field operations. His other option is to pay an additional $35,000 per month to run a generator. Executives said daily rates for drilling rigs have run as high as $30,000, almost double last year's prices.

Wastewater injections increasingly stress fault lines in Texas

(Bloomberg; April 29) - Earthquakes were never anything people in West Texas thought much about. Years would pass in between tremors that anybody felt — even after the shale revolution and oil crews started drilling frantically in the region's vast Permian Basin. But then, in 2015, there were six quakes that topped 3.0 on the Richter scale. And then six again the next year. And then the numbers just exploded: 17 became 78 became 181. And in the first three months of 2022 alone, there were another 59.

All of which means that West Texas, the oil-drilling capital of America, is now also on the cusp of becoming the earthquake capital of America. There's little doubt that there is a link between the drilling and the jump in seismic activity. Huge quantities of wastewater spew out of wells as the oil gushes out, and injecting that water back into the ground — the cheapest disposal option — puts stress on the Earth's fault lines.

That none of the quakes has been big enough to do much damage — just a cracked wall here and a loosened skylight there — is of little comfort to those who watched a similar pattern develop in Oklahoma. What followed there was a gradual pickup in size that eventually gave the tremors enough force to start ripping walls off homes and buildings. Oklahoma only steadied the ground after regulators forced drillers to slow the pace of water disposal in the area and haul some of it miles away.

For now, regulators in Texas, a famously hands-off bunch, are mostly just asking, rather than demanding, companies to dump less water in the ground. Produced-water injections down Texas wells can total 15 million barrels a day or more. To some oil executives, the industry's goals of expanding output and reining in water injections and earthquakes are now so at odds that there's no easy way to reconcile them. There are new technologies to recycle the water but many remain too expensive to be truly helpful. Growth, these people say, may eventually have to take a back seat.

Chevron raises production target in Permian 15% over last year

(Bloomberg; April 29) - Chevron lifted its production target in North America's biggest oil field in a sign that U.S. shale is responding to $100-a-barrel crude despite rising cost pressures and equipment shortages. Chevron will produce the equivalent of about 725,000 barrels of oil daily in the Permian Basin this year, a 15% increase from 2021, the company said in an investor presentation on April 29. That's up from the previous plan for a 10% increase in the region.

The second-largest U.S. driller joins Continental Resources, Hess and Matador Resources in signaling plans to boost shale production amid sky-high crude and gas prices. "We are seeing some cost increases in the Permian but it's very manageable," Chief Financial Officer Pierre Breber said during an interview. Chevron is now "back on the trajectory that we were on pre-COVID" in the biggest U.S. shale basin, he said.

Chevron's announcement, combined with their smaller peers, show that the industry may be willing to increase supplies, even though there are steep labor and equipment shortages. Brent crude is up almost 40% this year to $107 due to Russia's growing international isolation following its invasion of Ukraine, while natural gas also posted steep gains, especially in Europe. "There is a supply response happening," Breber said. "It's just lagging what's been very strong demand."

Exxon-led Russian oil project curtails exports due to lack of tankers

(Upstream; April 28) - The ExxonMobil-led Sakhalin 1 consortium has declared force majeure on its scheduled oil shipments from Russia to Asia from the marine terminal on Sakhalin Island in Russia's Khabarovsk region. Project stakeholders, which include Japan's Sakhalin Oil and Gas Development, India's ONGC Videsh and Russia's Rosneft, are reportedly facing difficulties in chartering ice-resistant tankers to ship oil.

These tankers are operated by Russian state-owned shipper Sovcomflot, which is subject to sanctions from the U.S. and Europe. The waters between the Khabarovsk region and Sakhalin usually clear from ice by June, but require ice-class vessels and icebreaker support before that. Reasons cited by foreign shippers to Reuters also include concerns over reputational risk in carrying Russian oil and the increasing difficulty in arranging insurance coverage for oil cargoes.

"As a result, (Sakhalin 1 operator) Exxon Neftegas has curtailed crude oil production" at its offshore oil fields in the northeast of Sakhalin Island, an ExxonMobil spokesperson told Reuters. The U.S. supermajor in early March announced it was exiting Sakhalin 1 and all other operations in Russia following the country's invasion of Ukraine. Exxon is planning to conclude a complete exit from the country by June 24, two sources familiar with plans told Reuters. Sakhalin 1 produced about 271,000 barrels of oil per day in January and February 2022, according to the Russian Energy Ministry data.

Effect of sanctions: Russian crude heads to storage in South Africa

(American Shipper; April 28) - Two supertankers loaded with Russian oil are in route to a storage facility in South Africa. The Searacer and Elandra Denali, each carrying about 2.1 million barrels of oil, are headed to the Port of Saldanha, a hub for crude oil storage, according to Argus. American Shipper has verified the destinations through MarineTraffic. Andy Lipow, of Lipow Energy Associates, tells American Shipper the only reason for vessels to berth in Saldanha is to store oil.

“This shows you the sanctions are having a real effect on Russia’s ability to sell their crude oil, and we are now seeing Russian crude oil go into storage,” Lipow said. “The only reason for an oil tanker to go to Saldanha Bay is to unload the oil into storage.” Lipow said the oil markets are keeping an eye on other “out of the ordinary” tanker voyages, such as from the Netherlands or Gibraltar to the Caribbean. “There are numerous storage locations in the Caribbean,” Lipow said. “St. Croix, Bonaire, St. Lucia, St. Eustatius and Curacao are important oil storage hubs for producers and traders.”

Russia losing its global oil trading partners

(The Wall Street Journal; April 28) - Moscow depended on foreign middlemen to ferry oil — its most strategic and lucrative export — around the world. Now the most-important middleman, Trafigura, is joining several competitors in cutting off Russian giant Rosneft from global oil markets. In a high-stakes move that goes further than official Western sanctions, the Swiss commodities trader plans to stop exporting Rosneft's oil altogether.

Trafigura and other traders were already poised to lose a big chunk of their Russian business on May 15, when sanctions go into effect that bar them from selling Rosneft oil to countries outside the European Union and Switzerland. In deciding to cut exports to Europe, Trafigura is getting ahead of EU countries that are discussing a full ban.

Vitol, Trafigura's biggest competitor in oil, also plans to retreat from the Russian market, according to people familiar with the decision. Glencore, a mining and trading giant with a long history in Russia, suspended its contract to export Rosneft oil in March, sources said. It marks a shift for the traders, which have long done business where few other Western companies would dare, given that many of the world's valuable commodities are found in places that have struggled with corruption, instability and war.

People familiar with their terms said Trafigura and its rivals agree to long-term contracts to buy millions of barrels of Russian oil, with prices set according to formulas based on recent oil benchmark prices. Russia locks in a steady buyer of its oil, and Trafigura makes a profit by selling at a slightly higher price to refiners and traders worldwide. With the walls closing in, Moscow will have to turn elsewhere if it is to keep selling its oil. One option is to sell directly to select customers in Asia. Another is to build pipelines to ship oil directly to China. A third is to replace big traders with smaller Mideast traders.

EU nations could implement ban on Russian oil by end of year

(Bloomberg; April 30) - The European Union is set to propose a ban on Russian oil by the end of the year, with restrictions on imports introduced gradually until then, according to people familiar with the matter. The EU will also push for more banks from Russia and Belarus to be cut off from the international payment system SWIFT, including Sberbank, said the sources. The U.S. and U.K. previously imposed sanctions on Sberbank, Russia's largest financial institution.

A decision on the new sanctions could be made as soon as the coming week at a meeting of the bloc's ambassadors, according to the people. The proposed measures, which would be the EU's sixth package of sanctions since Russia invaded Ukraine in February, have not been formally put forward and could change. EU sanctions require the backing of all 27 member states to be adopted and several countries, such as Hungary, have long resisted measures targeting Russian oil. Bloomberg reported this week that Germany, earlier another holdout, has signaled its blessing for a gradual ban.

An oil embargo would dramatically raise the stakes with Russia as the EU, the single largest consumer of crude and fuel from Russia, seeks to pressure President Vladimir Putin over his war and comes as tensions are already high over natural gas supplies. In 2019, almost two-thirds of the bloc's crude oil imports came from Russia. Other options that have been discussed to slash Russia's oil revenue have included price caps, special payment mechanisms and tariffs.

North Dakota oil industry wants tax relief during high prices

(The Associated Press; April 28) - North Dakota's oil industry wants lawmakers to change the framework for taxing crude production, abolishing the price-based triggers that have been in place for decades. Unless oil prices suddenly decline or the law is changed, the state treasury may start reaping the benefits of a tax increase that could bump state collections by several hundred million dollars in the two-year budget cycle. The high prices are in contrast to just a few years ago when low oil prices threatened to trigger a tax break for drillers that would have cost the state.

Abolishing oil-tax triggers would give drillers certainty and keep the industry's jobs and revenue flowing, said Ron Ness, president of the North Dakota Petroleum Council. The potential for an oil tax increase is possible because of a state law that adjusts North Dakota's oil extraction tax, depending on whether the three-month average price of a barrel of oil is above or below a specified trigger price. North Dakota lawmakers in 2015 session modified the tax to save the industry at low prices. Democrats argued it was a giveaway to the industry and would ultimately cost the state billions of dollars in taxes.

At current high prices, the price-triggered tax increase would swell state tax collections by $372 million to $4.09 billion for the current 2021-23 budget cycle, according to a revenue analysis done last month by the Legislative Council, the research arm of the North Dakota Legislature. Rep. Michael Howe said he suspects House and Senate tax committees will debate price-triggers when the Legislature reconvenes in January.

China cuts back on Russian crude, boosts imports from Iran

(The Wall Street Journal; April 28) - Iran is ramping up oil exports and benefiting from a rise in oil prices as its main buyer, China, pulls back on its purchases of Russian oil due to the war in Ukraine. Iran's oil exports — which go almost exclusively to China apart from rare deliveries to Syria and Venezuela — rose to 750,000 barrels a day in the first three months of the year, up 12% from an average of 668,000 barrels a day in the full-year 2021, said commodities data provider Kpler. China cut back its purchases of Russian oil by 14% in March, according to data from Chinese customs administration.

Iran's growing exports illustrate how the invasion of Ukraine is redrawing the world's energy trade routes, as energy consumers look for alternatives to Russian oil and natural gas to avoid Western sanctions. The changes are expected to accelerate as more Russian oil comes off the market, with the International Energy Agency predicting that the country's production will fall by more than a quarter.

Iran's exports grew faster than any other Middle Eastern nation in the first quarter, and marked the highest level of oil exports since 2018. Russia and Iran have aligning interests on a range of issues, including opposing the U.S.-led global order. But in the oil market, they are competitors, as some of Iran's crude has a similar composition to Russian grades that makes it easy for refineries to substitute them for each other.

U.S., Europe ready to accept long-term LNG deals to boost supply

(The Wall Street Journal; April 28) - As Russia moves to cut off natural gas supplies to parts of Europe, U.S. and European Union officials are now indicating that they are more open to longer-term deals to ship American fuel across the Atlantic. The EU and U.S. have pledged to expand liquefied natural gas exports to Europe through 2030. But the U.S. is already sending all it can to Europe, and industry officials say expanding volumes will require new, multibillion-dollar export terminals, which traditionally have required long-term contracts from buyers to line up financing.

European and U.S. officials have previously expressed opposition to such long-term contracts, which could lock in fossil fuel supplies for decades, conflicting with another policy goal: Reducing the greenhouse gas emissions linked to climate change. But in recent weeks, EU and White House officials have told industry executives that they support long-term supply contracts, according to people briefed on the meetings.

Charif Souki, co-founder of fledgling LNG exporter Tellurian, said that while there are no quick answers for European energy, the focus should be on ensuring gas supplies for later in the decade. "The best time to start an LNG facility would have been five years ago," Souki said. "The next best time is today." Tellurian said it began construction on its $12 billion Driftwood LNG plant in Louisiana last month, despite not completing plans for financing. Souki said the decision stemmed in part from increased support from U.S. officials, who he said had expedited regulatory approvals and other processes.

Europe's LNG import terminals running at maximum capacity

(Bloomberg; April 28) - Europe's liquefied natural gas import terminals are running at full capacity as a record volume of discounted supplies arrive, easing fears about a shutoff in Russian flows. The European Union is pushing to slash Russian gas imports in favor of more LNG, but that increase is stretching the ability of the region's infrastructure to handle the volumes until more terminals are built. LNG imports hit record-high levels this month in key northwest European markets, ship-tracking and port data show.

Europe has become the most lucrative LNG market this year amid worries over Russia cutting pipeline gas supplies to the region. Also, muted demand in Asia due to ample stockpiles and COVID-19 outbreaks has weighed on prices there. That's led to LNG suppliers offering cargoes to Europe at unprecedented discounts to win business, according to traders in the market.

Some LNG suppliers have offered cargoes to Europe at discounts of more than 20% to benchmark gas prices to secure slots at terminals, which when available are being snatched up quickly, traders said. If more keeps arriving and using up terminal capacity, discounts may further expand as tankers will be forced to queue outside ports or even divert to alternative destinations. The discounts being seen in LNG are "in response to European terminals hitting max capacity," shipbroker Fearnleys said in a report.

Germany wants to add a fourth floating LNG import facility

(Reuters; May 1) - Germany wants to build four instead of three floating storage and regasification units (FSRUs) as it strives to replace Russian gas with liquefied natural gas that can be sourced from many countries, the economy ministry said on May 1. Chancellor Olaf Scholz's government is seeking alternatives to gas pipeline deliveries from Russia with the goal of reducing those imports to zero in two years.

President Vladimir Putin's decision to invade Ukraine shattered a belief held broadly over decades in Germany that economic cooperation with Russia would secure peace in Europe. Scholz has rejected calls to cut Russian gas imports immediately despite criticism that it is helping to finance Russia's war in Ukraine, saying such a drastic measure would hurt the European Union more that it would hurt Russia.

The economy ministry said in a progress report that work on the first FSRU in Wilhelmshaven will start shortly and should be ready to regasify LNG this year. The second floating facility would be built in Brunsbuettel, northwest of Hamburg, and should be operational next year. Utilities RWE and Uniper have secured the contracts for the FSRUs, and the government has earmarked 2.94 billion euros ($3.10 billion) to help fund the work. The floating units are faster and less costly to build than larger onshore LNG import facilities, though they provide significantly less import and storage capacity.

China steps up resale of surplus imported LNG

(S&P Global Platts; April 29) - China, the world's largest LNG importer, has become a reseller of LNG as domestic demand wanes amid pandemic movement curbs in

Shanghai and fears of similar restrictions being imposed elsewhere in the country as authorities move decisively to stem the spread of COVID-19. "Except for the big three national companies — PetroChina, Sinopec and CNOOC — which have an obligation to ensure natural gas supply, others LNG importers were heard to have resold many of their LNG imports recently," a trade source with an LNG terminal in South China said.

LNG terminals were still profiting from selling long-term LNG cargoes in the domestic market, but reselling LNG cargoes in the international market was proving more profitable, the source said. A trade source with one of the top three state-owned oil majors said it was considering diverting some summer LNG supplies to other markets where prices were higher. "China's demand for natural gas, especially for LNG, is expected to slow down this year," he said.

This comes as an COVID-19 outbreak in Beijing has sparked fears of a Shanghai-style lockdown there. Mass testing for COVID-19 has also been ordered in several other major cities, adding to concerns of further restrictions. "Not only spot LNG cargoes, but also those term contract volumes with destination flexibility are expected to be resold to other places where prices are higher this year," a third trade source said.

China's Sinopec sells surplus LNG to Europe

(Nikkei Asia; April 29) - China's biggest oil refiner, Sinopec, has been unloading excess liquefied natural gas to European clients, the company said April 28, in transactions that appear to run counter to China's objections to Western economic sanctions against Russia. Sinopec's Hong Kong-listed subsidiary confirmed during a first-quarter earnings call that it is reselling part of its LNG stockpile on the "international market."

"These are pure market transactions," said a Sinopec representative, denying any political implications to the trades. Sinopec is apparently reselling some of the imported LNG to Europe in part because domestic use of the fuel has come down from winter's peak. The soaring prices of LNG also seemed to have encouraged the resale.

Beijing has indicated it will not join Western sanctions against Russia over its invasion of Ukraine, and China is also expanding imports of pipeline gas from Russia. But given that China's information technology and automotive sectors rely on U.S. and European supplies and markets, Beijing wants to avoid further antagonizing Western nations.

Germany backtracks on agenda to speed up exit from coal

(Bloomberg; April 28) - German Chancellor Olaf Scholz's government is backtracking from its Group of Seven agenda to push globally for a speedier exit from coal. Steffen Hebestreit, the chancellor's chief spokesman, said Russia's war on Ukraine cast doubt over the practicality of asking the world's richest countries to end their use of coal. Germany is the current holder of the rotating presidency of the G-7 nations, which have taken the lead in pursuing sanctions against Russia.

Despite political pressure to end the use of the dirtiest fuel, coal generation is expected to jump 9% from last year, according to the International Energy Agency. That's driven by the economic recovery from the pandemic, while countries are also scrambling to find alternative sources to Russian fossil fuels. Japan and Germany, which have both banned nuclear power, have fewer options than others. In Germany, coal-fired power plants that were once decommissioned are now being considered for a second life.

As G-7 leader, the German government had previously said its priorities include efforts to accelerate the global phaseout of coal. Japan's government has pushed back, saying it will continue to curb coal use at home, but also recognizing its energy security needs.

High LNG prices drive South Asia to burn more oil to generate power

(Bloomberg; April 29) - South Asia's emerging economies are cranking up older power plants that burn highly pollutive fuel oil as rising liquefied natural gas prices put cleaner energy sources out of their reach. Bangladesh is generating 5,000 megawatts of electricity from fuel oil-fired power stations this month, about 25% more than a year earlier, said Muhammed Aziz Khan, the chairman of Summit Power International, which owns utilities in the country.

More than a third of the 40 LNG cargoes the nation has tendered over the past year were canceled due to elevated prices, he said. "At one time Bangladesh was encouraged to switch to gas, but the government kept the (oil) fuel plants," Khan said. "This has come as a huge upside during the Russia-Ukraine war." North Asian benchmark LNG prices have tripled over the past year — and spiked dramatically after the invasion of Ukraine — while gains in fuel oil have been more modest.

Pakistan has also been struggling to buy enough gas and has been forced to cut electricity to households and industry. India, meanwhile, phased out most of its fuel oil-fired plants, although it remains heavily reliant on coal and is grappling with a shortage of that fuel at the moment.

TotalEnergies takes write-down on Russian LNG project

(Reuters; April 28) - TotalEnergies said on April 27 it had recorded a first-quarter impairment of about $4.1 billion partly related to a liquefied natural gas development project in the Russian Arctic that has been hit by Western sanctions. The Arctic LNG-2 terminal, located on the Gydan Peninsula, was expected to start operations in 2023.

However, the plans have been under threat following sanctions by Western powers against Russia after its invasion of Ukraine. Total holds a 10% stake in the project.

"TotalEnergies has drawn upon the consequences of what has happened. This provision of around $4 billion shows that TotalEnergies is starting to turn the page," said a spokesperson for the French oil and gas company. The $21 billion project is key for Russia's plans to raise its share of the global liquefied natural gas market to 20% by 2035. Analysts have said Russia will need to rethink its aim of attaining the 20% share in the wake of European Union sanctions against it over the war in Ukraine.

Russian gas producer Novatek holds a 60% stake in the project, while 10% stakes are held by Total, Japan Arctic LNG, and Chinese firms CNPC and CNOOC. Shell, BP and ExxonMobil all are looking at write-downs as they exit Russian oil and gas investments.

Oil shutdowns cost Libya $60 million a day

(Al Jazeera; April 29) - Libya is losing tens of millions of dollars a day from the shutdown of its oil facilities, while global prices are at their highest in years, the country’s oil minister said. Oil is the lifeblood of the North African country trying to move past a decade of conflict since the fall of longtime leader Muammar Gaddafi in a 2011 NATO-backed uprising. But since mid-April, Libya’s two major export terminals and several oil fields have been held hostage to the country’s latest political schism.

“Production has fallen by about 600,000 barrels a day,” half of the prior level, Minister of Oil and Gas Mohammed Aoun said in an interview with Agence France-Presse at his office in Tripoli. “Calculating the sale price at $100 a barrel, losses are at least $60 million daily,” he said. The Libyan closures follow the selection in February of a new prime minister, Fathi Bashagha, by Libya’s eastern-based parliament in a direct challenge to Tripoli-based interim Prime Minister Abdulhamid Dbeibah.

Analysts have said eastern Libyan forces who back Bashagha have forced the closure of the oil facilities in a bid to press Dbeibah to step down, but the incumbent has insisted he will only hand power to an elected successor. The political bloc supporting Bashagha is aligned with Libya’s eastern-based strongman Khalifa Haftar, who in 2019-20 led a failed offensive against Tripoli, accompanied by his forces blockading oil fields. Haftar’s external backers include Russia, which belongs to the OPEC+ crude producers’ group.