Oil and Gas News Briefs
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Record U.S. oil production accounts for 1 in 8 barrels globally

(Financial Times; London; Dec. 6) - A heavyweight is leaning on global oil markets as prices slide to five-month lows: It's record U.S. supply. American oil production reached an all-time high of 13.2 million barrels a day in September, according to figures released last week, more than any other country and accounting for about one in eight barrels of global output. The volumes have outpaced official forecasts and called into question claims of a U.S. oil industry constricted by Wall Street or environmental regulations.

They are causing difficulties for the OPEC+ oil cartel, which last week agreed to deepen cuts to its members' own production volumes in a bid to prop up falling prices. The new supplies are also creating discomfort for the Biden administration, as U.S. officials join a push to phase out fossil fuels at the U.N. climate talks. West Texas Intermediate crude on Dec. 6 fell below $70 a barrel for the first time since July, a move analysts said was driven in part by higher-than-expected production from U.S. shale fields.

"U.S. supply was probably the biggest surprise of the surprises," said Bob McNally, president of Rapidan Energy Group, calling it the "main reason" why markets had not tightened as many had expected. It is a stark contrast with three years ago, when the pandemic caused oil prices to plunge and drilling companies idled rigs and laid off workers. In the aftermath, Wall Street's insistence on financial returns over growth, fears about the availability of prime acreage and President Joe Biden's combative stance toward the sector stoked fears that the industry's best days were behind it.

The U.S. accounts for 80% of the expansion in global oil supply this year, according to the International Energy Agency. Growth has been strongest in the Permian Basin of Texas and New Mexico, the most prolific oil field in North America and the scene of a flurry of corporate dealmaking that points to further production gains.

Consolidation continues in Permian; Occidental pays $10.8 billion

(Bloomberg; Dec. 11) - Occidental Petroleum has agreed to acquire Texas shale driller CrownRock in a cash-and-stock deal valued at about $10.8 billion as consolidation heats up in North America's most-prolific oil basin. The transaction is expected to close in the first quarter of 2024, subject to regulatory approvals, Occidental said Dec. 11 in a statement. The company has lined up $10 billion of committed bridge financing through Bank of America, according to an investor presentation. That's expected to be replaced with more permanent financing including term loans and bonds.

CrownRock, the third-largest closely held oil producer in the Permian Basin, has operations that complement assets Occidental acquired through its massive 2019 takeover of Anadarko Petroleum. To secure that deal, Chief Executive Officer Vicki Hollub obtained a $10 billion investment from Warren Buffett's Berkshire Hathaway, which is now Occidental's biggest shareholder. Berkshire is not involved in the CrownRock deal, Hollub said in an interview on CNBC.

Occidental's deal for CrownRock comes as oil executives face pressure from investors to keep buybacks and dividends flowing even as the shale sector matures and growth slows. With many of the best production sites already tapped, companies flush with cash from the post-pandemic run-up in oil prices are increasingly buying rivals to secure new places to drill. The deal follows ExxonMobil's $60 billion agreement to buy Pioneer Natural Resources and Chevron's pending $53 billion takeover of Hess Corp.

Oil prices continue heading lower

(Reuters; Dec. 8) - Oil benchmarks were on track for a seven-week decline on Dec. 8, their first in half a decade, on worries about a supply surplus and weak Chinese demand, though prices rebounded after Saudi Arabia and Russia lobbied OPEC+ members to join output cuts. Brent crude futures were up $1.56 for the day, or 2%, at $75.51 a barrel on Dec. 8, while U.S. West Texas Intermediate crude futures were up $1.45 to $70.79 a barrel.

Both benchmarks slid to their lowest since late June on Dec. 7, a sign that many traders believe the market is oversupplied. Brent and WTI are also in contango, a market structure in which front-month prices trade at a discount to prices further out, a sign of a current oversupplied market. OPEC+'s "weakening position in providing support coupled with record high U.S. production and sluggish Chinese crude oil import figures can only mean one thing: There is an abundance of oil available, which is neatly reflected in the contangoed structure," Tamas Varga of oil broker PVM said in a note.

Saudi Arabia and Russia, the two biggest oil exporters, on Dec. 7 called on all OPEC+ members to join an agreement on output cuts for the good of the global economy, only days after a fractious meeting of the producers' club. The Organization of the Petroleum Exporting Countries and allies, known as OPEC+, agreed to a combined 2.2 million barrels per day in cuts for the first quarter 2024. "Despite OPEC+ members pledges, we see total production from OPEC+ countries dropping by only 350,000 barrels per day from December 2023 to January 2024," said Viktor Katona, lead crude analyst at Kpler.

Russia and Saudi Arabia call on all OPEC+ members to cut output

(Reuters; Dec. 7) - Saudi Arabia and Russia, the world's two biggest oil exporters, on Dec. 7 called for all OPEC+ members to join an agreement on output cuts for the good of the global economy only days after a fractious meeting of the producers' club that failed to halt the slide in oil prices. Hours after Russian President Vladimir Putin went to Riyadh in a hastily arranged visit to meet Saudi Crown Prince Mohammed bin Salman, the Kremlin released a joint Russian-Saudi statement about their discussions.

The Organization of the Petroleum Exporting Countries, Russia and other allies agreed last week to new voluntary cuts of about 2.2 million barrels per day, led by Saudi Arabia and Russia continuing their voluntary cuts totaling 1.3 million barrels per day. "In the field of energy, the two sides commended the close cooperation between them and the successful efforts of the OPEC+ countries in enhancing the stability of global oil markets," said the Dec. 7 statement released by the Kremlin.

Saudi state news agency SPA said the crown prince and Putin had emphasized in their meeting the need for OPEC+ members to commit to the group's production-cutting agreement. Oil market sources said that such an explicit public remark from the Kremlin and the kingdom about "joining" cuts appeared to be an attempt to send a message to members of the OPEC+ club that had not cut or not cut enough.

Chevron boosts spending 11% for 2024, but still short of 10 years ago

(Reuters; Dec. 7) - Chevron said on Dec. 6 that it expects to spend between $18.5 billion and $19.5 billion next year on new oil and gas projects, an 11% increase compared to this year. Chevron’s 2024 budget and that of ExxonMobil reflect the industry's continuing rebound after pandemic-influenced pullbacks, recent acquisitions and carbon-reduction initiatives. Exxon has outlined its plan to spend between $22 billion and $27 billion annually through 2027.

While both are spending more, the combined sums are less than half the combined $84 billion Exxon and Chevron spent in 2013, when oil prices often traded above $100 per barrel. The two are benefiting from higher energy prices and pandemic cost-cuts. Chevron's figure excludes any impact from its proposed $53 billion acquisition of rival Hess Corp. That deal, which is expected to close next year, will push capital expenditures to between $19 billion and $22 billion, Chevron said.

Chevron plans to spend about $9 billion of its current budget in the U.S., as oil companies move investments to the Americas to reduce costs and pare geopolitical risks. Of the total projected budget, about $5 billion will be devoted to its fast-growing Permian shale production operation, and $1.5 billion to other shale and tight-oil businesses. The shale and tight-oil spending increases reflect its acquisition of PDC Energy earlier this year. Projects in the Gulf of Mexico will take up about $3.5 billion, with production from a new oil platform, Anchor, expected to start next year.

Santos, Woodside in talks to create largest LNG producer in Australia

(Reuters; Dec. 7) - Australia's Woodside Energy and Santos said on Dec. 7 they were in preliminary talks to create an A$80 billion (US$52 billion) global oil and gas giant, as consolidation among international energy firms intensifies. A deal would combine two of Australia's largest oil and gas producers. If it goes ahead, it would create the biggest liquefied natural gas producer in Australia, which is the world's No. 2 exporter of the fuel that is expected to see decades of growth to meet Asia's energy-transition needs.

Perth-based Woodside, the larger of the two companies, said the talks with Santos were confidential and incomplete and that there was no certainty an agreement would materialize. Its market capitalization stands at A$56.91 billion, while Santos is valued at A$22.1 billion. Both companies face rising pressures of decarbonization as well as challenges in their current projects. Woodside's share price has dropped 15.4% this year so far, while Santos' stock is down 4.3%.

Combined oil and gas production for the two stood at just over 260 million barrels of oil equivalent a year. "It's an Australian powerhouse that would have better leverage with buyers and the ability to optimize that LNG portfolio given the number of terminals," said Bernstein analyst Neil Beveridge. However, such a combination would come under close scrutiny from Australia's competition watchdog, which has been toughening its stance toward allowing takeovers in concentrated sectors. Both Woodside and Santos had recently flagged challenging near-term production along with soaring capital expenditure and regulatory hurdles to ongoing projects.

Exxon reports small delay to 2025 in first LNG from Texas terminal

(S&P Global; Dec. 6) - ExxonMobil expects the Golden Pass LNG terminal under construction in Texas to start production in the first half of 2025, executives said Dec. 6, representing a delay from the previous timeline for bringing the facility online in late 2024. The company, which provided the new timeline with the release of its updated corporate plan, did not immediately respond to a request for comment about the reason for the delay. ExxonMobil is building the project, which will have a peak capacity of about 18.1 million tonnes per year, with majority-owner QatarEnergy.

"Train 1 mechanical completion is expected at the end of 2024, with the first LNG in the first half of 2025," ExxonMobil CFO Kathy Mikells said in prepared remarks ahead of a call with investors. While a slight delay, the new timeline for the start-up of Golden Pass could be significant for the U.S. Gulf Coast gas market in 2024 because it suggests that U.S. LNG feed gas demand could rise at a slower rate than market participants had expected during the year. It also suggests that deliveries from Golden Pass would not be available in time to serve 2024-2025 winter demand.

The project sponsors of Golden Pass will independently market their own share of LNG production. QatarEnergy will market 70%, while ExxonMobil will market the remaining 30% stake. ExxonMobil CEO Darren Woods during the call discussed a "much stronger desire" among global LNG buyers since Russia's February 2022 invasion of Ukraine "to lock in long-term LNG commitments." Woods said ExxonMobil was responding to that demand as it develops its projects, including Golden Pass and others in Papua New Guinea, Mozambique and Qatar.

Environmental groups demand U.S. stop permitting new LNG projects

(Reuters; Dec. 7) - More than 250 environmental and community groups on Dec. 7 called on the Biden administration to halt its support for liquefied natural gas due to the fuel's contribution to climate change. The groups, led by Friends of the Earth, released a letter to Biden at the COP28 U.N. climate summit in Dubai, where dozens of nations are pushing for a global agreement to phase out use of CO2-emitting fossil fuels like LNG.

The letter demands the administration stop permitting new LNG facilities and cease financial and diplomatic support for the industry. The administration has approved five LNG export licenses to serve the European market following Russia's 2022 invasion of Ukraine. The U.S. is the world's largest exporter of LNG, with most of the cargoes going to Europe as it seeks to wean itself off Russian gas. Carbon dioxide emissions from U.S. LNG facilities have soared 81% since 2019, according to government data.

"Any push for a phase-out of all fossil fuels at COP28 risks falling flat if the world's leading LNG exporter shows no signs of changing course," the letter said. "We urge the Biden administration to publicly commit during COP to no further regulatory, financial or diplomatic support for LNG in the United States or anywhere in the world."

Unsuccessful U.S. LNG developer ousts its chairman

(Reuters; Dec. 9) - Tellurian ousted its chairman and co-founder Charif Souki as an executive officer, the U.S. liquefied natural gas developer said on Dec. 8, weeks after auditors raised doubts about the company's ability to cover future expenses. Souki helped create the U.S. LNG export industry after seizing on the opportunity created by shale gas. He turned Cheniere Energy from an LNG importer into a major exporter with its first cargo in 2016, but has not been unable to repeat the same success at Tellurian.

Souki was pushed out of Cheniere Energy and co-founded Tellurian in 2016 with Martin Houston, who will replace him as chairman. Souki will remain on the company's board, Tellurian said. Company shares rose 4% in extended trading to 78 cents. The stock had traded as high as $11.19 in 2019 but fell after initial backers of its proposed Driftwood export project, including LNG traders Vitol and Shell, withdrew as potential customers.

Tellurian has changed its Driftwood strategy several times over the years, never attracting enough potential clients for the $14.5 billion first phase of the facility, planned for a production capacity of more than 27 million tonnes per year. Last month, auditors put a going-concern warning on its financial statements. It had begun construction on the first phase using cash from selling equity and from a small gas-production unit. Tellurian has lost potential customers for Driftwood over the years. In August, Tellurian revealed that trader Gunvor Singapore terminated its contract to take cargoes.

Canada drafts cap-and-trade to limit greenhouse gas emissions

(Wall Street Journal; Dec. 7) - The Canadian government said it would use a cap-and-trade system to impose greenhouse gas emissions limits on its oil and gas industry, making Canada one of the first major oil producers to impose such limits on its energy industry. Under what the government called a “draft framework” that would be finalized in 2025, Canada will issue emissions allowances to producers, which will be capped at a level between 35% and 38% below 2019 levels, beginning in 2030. The government will keep lowering allowances in stages until the industry reaches net-zero by 2050.

The plan allows companies to buy allowances from other producers. If they exceed the cap, producers will be able to buy carbon offsets or pay into a fund that will back decarbonization projects in the energy sector. “The government of Canada’s plan to cap and reduce emissions from Canada’s largest emitting sector is ambitious but practical,” Steven Guilbeault, Canada’s environment minister, said Dec. 7, calling the plan “strict but achievable.” The emissions cap is a key plank in Canadian Prime Minister Justin Trudeau’s plan for Canada to reach net-zero emissions by 2050.

The oil and gas industry accounts for about 28% of total greenhouse gas emissions in Canada, government data indicate. The announcement drew criticism from Danielle Smith, conservative leader of the energy-rich province of Alberta, which produces the majority of Canada’s oil and gas. “This announced de facto production cap on Alberta’s oil and gas sector amounts to an intentional attack by the federal government on the economy of Alberta and the financial well-being of millions of Albertans and Canadians,” Smith said. She called the plan an unconstitutional imposition on provincial jurisdiction.

Russia’s revenues from Gazprom gas sales drop 70% this year

(Reuters; Dec. 7) – Government revenue from export sales of natural gas by Kremlin-controlled Gazprom may plunge more than 70% this year, resulting in budget proceeds from gas exports falling to $6.5 billion from $24 billion in 2022, Reuters calculations show. Europe used to be Russia's key source of revenue from gas sales, however Moscow's exports to the region have significantly fallen due to the political fallout over Ukraine and following last year's blasts at Nord Stream undersea gas lines.

Europe managed to overcome a feared energy crunch in the winter of 2022/2023 due to its efforts to reduce energy consumption and find other suppliers, such as sellers of seaborne liquefied natural gas. Reuters calculations show that Gazprom's own revenues from gas exports may decline to around $22 billion this year from a record $80 billion in 2022 when spot prices in Europe shot up to all-time highs amid tight supplies.

The calculations also showed that Gazprom's gas exports outside former Soviet Union will fall further when 2023 is totaled, to 2.4 trillion cubic feet this year from 3.5 tcf in 2022, when they had already almost halved from 2021.

Norway’s tight-reservoir gas faces economic challenge

(Reuters; Dec. 6) - Norway still has vast proven natural gas resources that lack development plans, the Norwegian Petroleum Directorate said on Dec. 6, urging exploration companies to find ways of producing it despite technological challenges. As this year's COP28 U.N. climate talks focus on the first global agreement to phase out fossil fuel use, Norway argues it will keep producing oil and gas, which it says has fewer emissions during production compared with other fuels, as long as there is demand. It says output will naturally ebb starting in 2030.

Natural gas resources equating to some 30 trillion cubic feet are trapped in so-called tight reservoirs with low permeability in Norwegian offshore territory, according to the directorate’s estimates. However, production from tight reservoirs is frequently only profitable if the development is based on tiebacks to existing infrastructure with a long production horizon, the government agency said in a statement.

Time is of the essence in producing these resources before the end of the lifetime of the infrastructure they are tied to, said Arne Jacobsen an assistant director. "We need to ensure that these values are not lost, and that the companies are doing enough to produce the difficult volumes as well," Jacobsen added. Companies should work together and "leave no stone unturned" to determine if it is possible to produce remaining resources profitably with existing technology, he said.

U.S. Energy Department steps up effort to refill oil reserves

(Reuters; Dec. 8) - The U.S. Department of Energy on Dec. 8 said it wants to buy up to 3 million barrels of crude oil for the Strategic Petroleum Reserve for delivery in March 2024, as it takes advantage of lower prices to start replenishing the stockpile. The administration last year conducted the largest sale to date from the SPR of 180 million barrels to try to limit an oil price rally after Russia attacked Ukraine in February 2022.

The Energy Department in October said it would buy back oil for the reserve at $79 per barrel or lower, after it had received an average of about $95 a barrel from last year's emergency sales. It plans to release monthly offers to buy crude for the emergency stash through May next year. The new solicitation is for sour crude and the delivery will be received by the Big Hill SPR site in Texas.

The department has bought back nearly 9 million barrels for the reserve at about $75 a barrel. It has also secured the return of nearly 4 million barrels by February, several months ahead of schedule, from a previous exchange with oil companies. Department officials have said that the return of oil is being tempered by planned life-extension maintenance at the SPR, where oil is held in hollowed-out salt caverns on the Texas and Louisiana coasts. The reserve currently holds 351.9 million barrels of oil.

Nigeria moves closer to opening refinery for fuel self-sufficiency

(BBC; Dec. 9) - The delivery of a million barrels of crude oil to huge new refinery in Nigeria marks a major milestone in the process toward the country being able to produce fuel itself. For years, the oil-rich nation has not been able to refine the product. Importing refined fuels costs the country huge amounts of foreign currency. It is not clear when the mammoth Dangote refinery will start working, but once running it will be a big step in reaching energy self-sufficiency.

The delivery of the first one million barrels of crude will be followed by five million more, which should then allow the plant to begin producing fuel. When fully operational, the $19 billion facility in Nigeria's commercial hub, Lagos, is predicted to produce about 650,000 barrels per day. It will begin by making diesel, aviation fuel and liquefied petroleum gas before progressing to the production of petrol.

Africa's richest man and president of the Dangote Group, Aliko Dangote, said on Dec. 8 that the "focus over the coming months is to ramp up the refinery to its full capacity. I look forward to the next significant milestone when we deliver the first batch of products to the Nigerian market." The company boasts it will be eventually able to provide for 100% of Nigeria's requirements of refined products and also have surplus for export.