Oil and Gas News Briefs
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OPEC+ may need to extend cuts through 2024 to avoid price crash

(Bloomberg; Dec. 11) - OPEC+ will need to maintain its latest oil supply cuts throughout next year in order to keep the global market in balance, according to Citigroup. The Organization of the Petroleum Exporting Countries and its allies have announced that they will cut supplies by a further 900,000 barrels a day during the first quarter, and may prolong the measures if necessary. The 23-nation group led by Saudi Arabia will need to do exactly that to keep prices near current levels, the bank said.

"These cuts do need to be maintained to balance the market through the course of next year," Max Layton, Citigroup's global head of commodities research, told Bloomberg TV on Dec. 11. "They can balance this market and keep prices at $70 to $80 if they all work together." Traders have so far been unimpressed with the producer group's pledges, remaining skeptical that it will cut supplies sufficiently to tame an oil-supply surplus that's looming in the first half of next year. Prices have retreated roughly 10% since the coalition met on Nov. 30, trading near $75 a barrel in London on Dec. 11.

Yet a range of $70 to $80 a barrel may not be high enough for many of the coalition's members to cover government spending. Saudi Arabia may need a price closer to $100 a barrel, according to Bloomberg Economics. Global markets face a surplus of roughly 1 million barrels a day during the second quarter of 2024, and about 600,000 a day during 2024 as a whole, said Layton. If OPEC+ were to instead bring back all of its spare production capacity, prices could crash by as much as 50%, Layton said.

Analysts say three-month supply cut by OPEC+ may be too short

(Reuters; Dec. 11) - OPEC+ oil output cuts of 2.2 million barrels per day in the first quarter may not be enough, analysts and traders said, as crude oil physical and futures prices show increasing signs of surplus ahead of the implementation. The Nov. 30 deal by the Organization of the Petroleum Exporting Countries and its allies calls for Saudi Arabia and Russia to roll over current cuts of 1.3 million barrels per day, with nearly 1 million barrels per day in new voluntary reductions by others.

Despite the planned cuts, however, Brent futures hit a six-month low below $74 last week. While Saudi Arabia and Russia have said the cuts could be extended if needed, analysts and traders were surprised by the three-month duration of the new agreement. That was shorter than other recent OPEC+ deals. "I don't think a three-month cut is long enough to make a meaningful difference in terms of physical supply, even if everyone stuck to it," Adi Imsirovic, a veteran crude trader at Surrey Clean Energy, told Reuters.

The short duration, plus the lag of one to two months for producers to implement cuts, means that investors may see little evidence of reduced supply in physical markets until near the end of January. "A continuation of these cuts into the second or third quarters might be required for the (Nov. 30) meeting to be viewed bullishly," Macquarie analysts said. "From that perspective, the meeting could be seen as falling short."

U.S. energy agency cuts price forecast for 2024 by $10 per barrel

(Reuters; Dec. 12) - The U.S. Energy Information Administration on Dec. 12 lowered its 2024 price forecast for international benchmark Brent crude by $10 a barrel, despite a recently announced oil production output deal from OPEC+. Brent will average $83 per barrel in 2024, the EIA forecasted in its monthly report, versus an estimate the administration published last month of $93 per barrel.

Still, in the first half of 2024, the cuts from the Organization of the Petroleum Exporting Countries and its allies including Russia, known as OPEC+, will help boost the Brent crude oil spot price to $83 per barrel on average from $78 this month, the EIA said. The Nov. 30 OPEC+ deal included Saudi Arabia and Russia rolling over current cuts of 1.3 million barrels per day and nearly 1 million in new voluntary reductions by others.

OPEC blames ‘exaggerated concerns’ for driving oil prices lower

(Reuters; Dec. 13) - OPEC on Dec. 13 said it remained cautiously optimistic about 2024 oil market fundamentals and blamed "exaggerated concerns" about global demand for a recent drop in prices, as it stuck to its relatively high 2024 oil-use prediction. Oil has weakened to a six-month low near $72 a barrel, even after OPEC+, which includes OPEC oil-exporting nations and allies such as Russia, on Nov. 30 announced a new round of production cuts for the first quarter of 2024.

But the Organization of the Petroleum Exporting Countries in a monthly report said it remained "cautiously optimistic about the fundamental factors affecting oil market dynamics in 2024" and said speculators had played a major role in pushing prices lower. "Crude oil futures prices experienced a significant downturn, marked by heavy sell-offs amidst a highly volatile futures market," OPEC said about November prices. "The market dynamic was fueled by exaggerated concerns about oil demand growth, which negatively impacted market sentiment."

[IEA says global oil demand growth is slowing down]

(CNBC; Dec. 14) - The International Energy Agency on Dec. 14 said evidence of softening global oil demand is mounting and a slowdown is expected to continue into 2024, reaffirming a starkly different outlook compared to oil producing group OPEC. The IEA said oil market sentiment had turned “decidedly bearish” in recent weeks, even after some members of OPEC and non-OPEC allies — collectively known as OPEC+ — on Nov. 30 announced a new round of production cuts in the first quarter of next year.

In its latest monthly oil market report, the IEA said global oil demand was on course to rise an average 2.3 million barrels per day to 101.7 million barrels per day in 2023, noting that its forecast “masks the impact of a further weakening of the macroeconomic climate.” The energy agency warned that “evidence of a slowdown in oil demand is mounting,” with the pace of growth poised to “slow drastically” from 2.8 million barrels per day year-on-year in the third quarter to 1.9 million in the final three months of 2023.

It prompted a downward revision of the IEA’s global consumption growth forecast of nearly 400,000 in the fourth quarter, with weaker-than-anticipated demand in Europe, Russia and the Middle East accounting for the bulk of that adjustment. Looking ahead, the IEA said oil consumption growth is projected to halve next year, falling to 1.1 million barrels per day as global economic growth stays below trend in major economies.

[New Mexico takes in windfall from oil revenue, but it may not last]

(Associated Press; Dec. 11) - A windfall in government income from petroleum production is slowing down but far from over in New Mexico as the nation's No. 2 oil production state grapples with how much it can effectively spend — and how to set aside billions of dollars for the future in case the world's thirst for oil falters. The state is headed for a $3.5 billion general fund surplus for the year running through June 2025, according to a new forecast issued Dec. 11.

New Mexico's annual state government income has swelled by nearly 50% over the past three years, driven largely by oil and gas production in the Permian Basin, the most prolific shale-oil producing region in the country that extends across southeastern New Mexico and portions of western Texas. The state will draw in a record-setting $13 billion — exceeding its annual spending obligations by one-third — economists from state agencies said in a presentation to a legislative panel.

The revenue estimate sets a baseline for budget negotiations when the Democratic-led Legislature convenes in January, and could extend efforts to set aside money to ensure critical programs endure when oil income falters. The forecast cautions that slowing oil production and lower prices are expected to generate much less revenue next year and beyond. By the end of the decade, oil income is likely to begin a long, steady decline, "becoming a drag on revenue growth as global demand wanes," the forecast states.

About half of the state's general fund revenue can be traced to the oil and gas sector through an array of taxes and royalties on petroleum production that takes place largely on public lands — and distributions that flow from the state's $28 billion land grant permanent fund for education, which is nurtured by oil income and investment earnings.

Canadian gas line operator and contractor battle over cost overruns

(Reuters; Dec. 11) - Coastal GasLink, a Canadian natural gas pipeline partnership operated by TC Energy, is seeking C$1.2 billion (US$737 million) from one of its main contractors for construction delays and may be liable for a similar amount of its own if an arbitrator rules against it, court documents showed ahead of a hearing this month. Construction of the C$14.5 billion Coastal GasLink, which TC began planning in 2012, finished in October at more than double its original budget. Private-equity firm KKR and Alberta pension manager AIMco jointly own 65% of the partnership and TC owns 35%.

The dispute over the project that will supply Canada's first liquefied natural gas export facility — in Kitimat, British Columbia — highlights the extreme difficulties operators face in building Canadian pipelines. The Canadian government-owned Trans Mountain oil pipeline expansion, which aims to boost exports, has also faced delays and soaring costs. The 416-mile gas line through British Columbia's Rocky Mountains to the Pacific coast was delayed by mudslides, a six-month pandemic work stoppage, sometimes violent protests and steep terrain that forced TC to use ski lifts to transport pipe.

Coastal GasLink terminated contractor Pacific Atlantic Pipeline Construction's contract last year, alleging poor performance and is claiming C$1.2 billion for the cost of finding new contractors, a TC official said in court on Nov. 17. The court case comes ahead of the parties facing off in International Chamber of Commerce arbitration in November 2024 over whether Pacific Atlantic defaulted on its contract or was wrongfully fired. The contractor is seeking up to C$1 billion from TC Energy in its arbitration proceedings.

Chinese banks may finance Papua New Guinea LNG projects

(Reuters; Dec. 11) - Papua New Guinea's state-owned petroleum company is in advanced talks with Chinese banks to help fund its stakes in two major liquefied natural gas projects in the country, a senior executive said on Dec. 11. Kumul Petroleum is holding talks with banks in the U.S., Europe and Australia, but its managing director Wapu Sonk said talks with Chinese banks had gone further, as that nation's banks had fewer concerns around fossil fuel development.

"Most of the funding discussions are really with Chinese-backed banks because they have a different view on ESG," he said, referring to environmental, social and governance issues. "It's progressed to a point where it is mature," Sonk told Reuters at a Papua New Guinea resources and energy conference in Sydney. The Bank of China, ICBC and Bank of Communications were among those involved, he said.

The state-owned venture must raise roughly $1.34 billion to buy the remainder of a 5% stake in the PNG LNG project from Santos and fund a 22.5% share of the proposed Papua LNG project, Sonk said. The resource-rich but impoverished South Pacific nation is looking to boost foreign investment and trade amid a jostle for influence in the region between the U.S. and China. The Papua LNG project, at 5.4 million tonnes per year, is a joint venture between TotalEnergies, ExxonMobil, Santos and Kumul Petroleum.

Climate activists ask lenders to deny Papua New Guinea LNG

(Reuters; Dec. 13) - Major global lenders should refuse to finance a liquefied natural gas project in Papua New Guinea to help keep global warming in check, civil society groups said on Dec. 13, as some of the project partners tap banks ahead of a final green light next year. The Papua LNG project is incompatible with limiting global warming because of the emissions produced when the gas is burned by customers, according to an open letter from a coalition of 50 environment and social justice groups.

The letter was sent to tens of banks and public lenders in the U.S., Europe, Asia and Australia that had financed an earlier LNG project in the country or other TotalEnergies projects in the Asia-Pacific region since 2018. The Papua LNG project is the second major gas development in the impoverished Pacific country and is a joint venture between TotalEnergies, ExxonMobil, Santos and state-owned Kumul Petroleum.

Even as activists warn off banks in France, the U.S. and Australia, their respective governments are wooing Papua New Guinea with defense and economic deals to counter growing Chinese influence in the region. Kumul Petroleum revealed on Dec. 11 it is in advanced talks with Chinese banks named in the letter to help finance its share in time for the project's final investment decision in 2024. Kumul Managing Director Wapu Sonk told Reuters Chinese banks were more willing to fund hydrocarbon projects.

Decision expected next year on LNG project in British Columbia

(Tri-City News; British Columbia; Dec. 11) – Calgary-based Pembina Pipeline, the Haisla First Nation’s main industry partner in the proposed C$3 billion Cedar LNG project in Kitimat, British Columbia, expects the Haisla to take a final investment decision on the project in the first quarter of 2024. In a business and guidance update for 2024, Pembina notes it expects to spend roughly $210 million on the Cedar LNG project in 2024 on “pre-FID (final investment decision) contributions.”

Cedar LNG had been aiming for a final investment decision in the fourth quarter of 2023. “Given the complexity and sequencing of aligning the multiple work streams required to facilitate the project financing, an FID is now expected by the end of the first quarter 2024,” Pembina said. The project, as proposed, would use a floating liquefaction vessel anchored at shore, with a production capacity of 3 million tonnes per year.

Cedar LNG is owned by the Haisla First Nation, which has negotiated an agreement with LNG Canada — the Shell-led C$40 billion venture in its final stages of construction nearby — to access some of the gas that will be supplied to Kitimat via the Coastal GasLink pipeline which was built for the larger LNG project. Cedar LNG received its provincial and federal environmental approvals in March 2023.

Woodside, Santos merger would build 6th largest global LNG supplier

(Reuters; Dec. 13) - Australian energy companies Woodside and Santos announced Dec. 7 they are in preliminary talks to merge, a tie-up that would come amid a wave of consolidation in the global energy sector. If Woodside swallows up Santos, it would be the largest corporate deal in Australia in years. The entity would become the biggest liquefied natural gas producer in Australia, which is the world's No. 2 supplier of the fuel.

The enlarged Woodside would have a market value of roughly $50 billion and annual production of 260 million barrels of oil equivalent. LNG would account for 53% of production, while pipeline gas would take up 24% of output. The remaining 23% of output would be crude oil and condensates production, based on the two companies' production in 2022. With Santos in the fold, Woodside would overtake TotalEnergies and Malaysia's Petronas to become the world's sixth largest LNG producer.

The new entity would have assets in Australia, Alaska, the Gulf of Mexico, Senegal, Trinidad and Tobago and Papua New Guinea, with overseas output accounting for nearly a third of total production. With Australia in close proximity to top LNG buyers in northeast Asia, the merged group would have more bargaining power with buyers, given its bigger portfolio with more delivery options and flexibility from more terminals, analysts said. The group would operate four LNG plants in Australia — North West Shelf, Pluto, Darwin and Gladstone — and have a stake in Chevron-led Wheatstone.

New federal methane emissions rules will hit harder at small wells

(Houston Chronicle; Dec. 11) - After drilling oil and gas wells around Abilene, Texas, for decades, Cactus Schroeder wonders if his career is nearing its end. The 68-year-old owner of Chisholm Petroleum says newly released federal regulations aimed at stopping the potent greenhouse gas methane from escaping into the atmosphere will likely be too costly to comply with for a company like his, which relies on production from so-called stripper wells that produce fewer than 10 barrels of crude a day.

Days after the Biden administration released its long-anticipated methane rule at the COP28 climate conference in Dubai, the realities of coming into compliance are driving anxiety across oil and gas fields in Texas and the country. While larger oil companies are expected to comply with the new regulations relatively easily — they have been in negotiations with EPA over the rule for two years — smaller operators like Schroeder are far less certain of their future once the regulation goes into effect in five years.

Under terms of the more than 1,600-page regulation, the vast majority of oil and gas wells will need to replace out-of-date, leaky production equipment and inspect their sites multiple times a year for methane leaks, requiring tens of thousands of dollars in upfront costs and thousands in annual costs for a small production site. And that's in addition to methane fees, which go into effect next year, costing producers up to $1,500 per metric ton of emissions. Those costs are relatively small for new wells that might produce hundreds of thousands of dollars a day in revenue, but for an older well producing small amounts of crude each day, it simply might not make sense to keep producing.

Proposed U.S. offshore cleanup rules would help bigger companies

(Energy Wire; Dec. 11) - The Biden administration has gained an unlikely ally in its efforts to charge a hefty premium for offshore drilling: major oil companies. The proposal — which the Bureau of Ocean Energy Management released earlier this year — aims to prevent the public from paying to clean up abandoned wells in the Gulf of Mexico. As written, an estimated $9 billion in new cleanup insurance that would be required by the rules that fall disproportionately on smaller oil companies which are scrambling to push BOEM to rewrite the provision before a final version is published next year.

The administration plans to finalize the regulations by April. The rules, part of the White House attempt to overhaul the nation's oil and gas program, would also protect some of the biggest drillers from cleaning up abandoned wells when smaller firms that took over the properties go bust. The proposal comes after a spate of bankruptcies in the offshore sector in which midsize firms tried to abandon billions of dollars of infrastructure.

The financial instability of some offshore firms has put pressure on federal regulators to make it harder for those companies to drill without setting aside more upfront cleanup costs or insurance. But the draft rules have put the Biden administration in the unusual position of siding with major oil companies which are on board with the proposal because it could help shield them from covering cleanup of wells they formerly owned.

"It's not really the taxpayers that are getting insulated," said Rahul Vashi, co-chair of the oil and gas practice at the law firm Gibson Dunn. "It's the prior owners that are getting insulated, because there's already a regime here that says, 'If I weren't able to foot the bill, the government will go back to who owned it before me.'"

[BP turns to FERC in dispute with Louisiana LNG project owner]

(Wall Street Journal; Dec. 11) - BP has asked U.S. energy regulators to intervene in an escalating dispute with a start-up U.S. liquefied natural gas exporter whose feud with customers has become one of the industry's nastiest battles in years. BP in a Dec. 11 filing with the Federal Energy Regulatory Commission accused Venture Global LNG of skirting FERC disclosure rules while maintaining "a veil of secrecy around its operations" to the detriment of long-term customers.

The filing asked FERC to force Venture Global to disclose documents related to its delay in delivering LNG cargoes to BP and other long-term buyers. Amid that delay, Venture Global has profited handsomely from shipping a stream of more than 200 LNG cargoes to other buyers at higher prices on the spot market, surpassing $14 billion in sales, during a longer-than-normal ramp-up for an LNG plant. The company claims the plant is not fully operational, relieving it of the obligation to deliver contracted cargoes.

BP said in the filing that the reasons Venture Global has given for postponing selling cargoes to long-term customers "are disingenuous and are not credible." BP wants FERC to force the release of documents about Venture Global's plant on Louisiana's Gulf Coast that the company has asked to keep confidential. BP already has a private arbitration claim against Venture Global, which it filed in December 2022.

Arlington, Virginia-based Venture Global surprised many industry insiders by building one of the world's largest gas exporters within a decade. It pulled that off, in part, thanks to early long-term supply contracts signed with BP, Shell and other big buyers. The contracts helped the firm get financing for construction of its Calcasieu Pass terminal.

[Europe continues as major buyer of Russian LNG]

(High North News; Dec. 11) - A new analysis highlights the continued and unabated import of liquefied natural gas from Russia by European Union countries. In contrast to the United States, the EU has thus far not placed any sanctions on the import of Russian LNG. As a result, the EU remains a destination for 50% of Russia's LNG exports, sending in excess of $1 billion each month to the country. So far, European sanctions apply only to Russian pipeline gas supplies.

"Russia saw a surge in revenue from LNG exports, particularly as its LNG remains unsanctioned by the EU. From December 2022 to October 2023, half of Russia's LNG exports, totaling €8.3 billion (US$8.96 billion), were directed to the EU market," the report details. Up to a dozen EU countries have received Russian LNG since February 2022, all from the Yamal LNG plant in the Russian Arctic. With a second project, Arctic LNG-2, slated to come online in weeks, EU imports could increase further in 2024.

Azerbaijan says it will meet commitment to sell more gas to Europe

(Bloomberg; Dec. 10) - Azerbaijan can meet its target of doubling natural gas exports to Europe, President Ilham Aliyev said, even as his country has yet to secure the long-term sales deals it needs to invest billions to boost production. The Caspian Sea nation's gas exports to Europe will rise to almost 425 billion cubic feet this year from 280 bcf in 2021, showing Azerbaijan is "confidently moving toward the goal" of doubling supplies by 2027, Aliyev said at the opening of a 106-mile pipeline connecting the Serbian city of Nis to the outskirts of Sofia, Bulgaria, to carry Azerbaijan gas further into Europe.

Azerbaijan, which started selling gas to Europe in 2020, agreed last year with the European Commission to increase its volumes over the next five years. It was approached by more than 10 European nations for gas after Russia's invasion of Ukraine, but discussions have been inconclusive, according to people with knowledge of the matter. Azeri Energy Minister Parviz Shahbazov declined to comment when asked about progress in talks with European buyers. Serbia will be the seventh European country to receive Azerbaijani gas, Aliyev said.

Panama Canal restrictions divert tankers to longer route

(Reuters; Dec. 13) – The oil tanker Cururo is taking the long way from Houston to Chile, sailing the length of South America's Atlantic coast, across the Strait of Magellan and heading up the Pacific coast. The voyage could take 32 days and cover 10,000 nautical miles before it ends next week, compared with about 23 days and less than 5,000 miles for a typical route via the Panama Canal. The odyssey is shipping's new reality due to a severe drought in Panama that is likely to shift trade flows and push up freight costs.

The change will mean less U.S. gasoline heading to the West Coast of South America, particularly Chile, said Matt Smith, an analyst at ship-tracking service Kpler. Chile will instead likely pull gasoline from Asia, he said. The Cururo headed for the Panama Canal last month and, unable to secure a slot for passage, changed its route. Two other refined-products vessels also have taken longer routes to or from Chile that avoid the Panama Canal, which has imposed limits on daily traffic due to low water levels.

Taking longer routes or opting for bidding in Panama's daily slot auctions has made transportation more expensive for tankers and other vessel types without priority in the canal. U.S. diesel flows increasingly are heading to Europe as South America buys less due to Panama Canal logjams, Kpler data also showed. About 45% of U.S. diesel exports headed to Europe so far in December, compared with about 21% last month.

Venezuela wants companies to help it develop offshore gas project

(Reuters; Dec. 8) - Venezuela has begun contacting energy firms involved in a long-idled offshore natural gas project to push them to begin new exploration and operations near the country’s maritime border with Guyana, five people close to the talks said. The request to act on blocks that have not been touched in more than a decade comes amid an escalating territorial dispute with Guyana that has rattled the country and led to an emergency meeting of the United Nations Security Council.

Venezuelan President Nicolas Maduro wants state oil company PDVSA and oil majors' BP, Chevron and Shell to revive an offshore project shared with Trinidad and Tobago with some 8 trillion cubic feet of gas reserves. Called Plataforma Deltana, the discoveries were never developed amid insufficient capital, an unfinished reservoir-sharing effort with Trinidad, and a lack of clear rules for investment.

In 2019, both countries authorized Shell to develop Trinidad's portion of the largest find, called Manatee, with a final investment decision expected next year and gas output in 2028. Recently, Maduro has backtracked on that decision, telling Trinidad's government that the fields should be jointly developed. His government and PDVSA started tapping companies to weigh their interest. Plataforma Deltana is the closest energy project that Venezuela has to the waters in dispute with Guyana. Both nations have drawn maritime borders that cross offshore oil and gas areas in the other's claimed territory.