Oil and Gas News Briefs
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U.S. oil output up 9% from year ago, helping to hold down prices

(Wall Street Journal; July 7) - U.S. petroleum production is on pace for a record-breaking year, helping to keep energy prices stable despite the efforts of Saudi Arabia to drive them higher. U.S. crude output this year through April is up 9% from a year ago, surprising analysts given that oil futures were sliding and the country's shale boom was showing signs of peaking. The surge is being driven in part by improved efficiency and signals that the Organization of the Petroleum Exporting Countries' power to control prices could be waning as output continues to grow in the rest of the world.

After prices crashed in 2015, U.S. producers "went back to the lab and got much more efficient, with a lot of engineering-based gains and a lot of staff and cost cutting," said Vikas Dwivedi, an oil and gas strategist at Macquarie Group. OPEC and its allies so far this year have announced cuts amounting to about 6% of last year's production, while oil prices have slid by about 13%. Along with weaker-than-expected demand in China, prices are being held down by higher output in the U.S., Brazil, Canada and Norway.

Half of that higher production is coming from the U.S. Production improvements since 2014 have pushed down the cost of drilling and fracking in the U.S. shale patch by 36%, according to J.P. Morgan. Frackers have found ways to force more water and sand into rocks and create more oil-freeing fissures. ConocoPhillips said its wells this year will be 14% longer than those it drilled last year. EOG Resources said it bored a well over 5 miles deep and nearly 3 miles long in South Texas early this year — a record length for the company. The increased efficiency means EOG can earn as much from oil priced at $42 a barrel today as it would have from oil trading at $86 nine years ago.

U.S. oil field costs decline for first time in three years

(Bloomberg; July 5) - While inflation persists across the U.S. — albeit at a slower pace — the country's oil fields are a rare corner of the economy where prices are actually dropping. Drill pipe prices have halved this year, daily rig rates are down by more than 10% and the costs of steel and diesel are trending lower. The number of active oil rigs has dropped 13% from this year's peak, indicating there's a surplus of equipment in the market. The only major holdout is labor, with wages still on the rise.

Overall, U.S. oil production costs declined by 1% in the second quarter, marking the first drop in three years, according to Goldman Sachs. The pullback may seem modest — especially compared with a 50% increase in Permian Basin well costs from 2021 to

2023 — but it's poised to gain momentum in the coming months, analysts say. All told, costs will be about 10% lower next year than this year, according to Citigroup. For U.S. oil companies, it's welcome relief.

In the field, companies likely will use the lower costs not as an opportunity to drill more but rather to reduce their budgets, according to analysts at JPMorgan Chase. Most publicly traded companies will try to keep output flat or growing modestly, while reducing their capital spending by 5% to 10% next year, the bank analysts said. Less spending should help producers cushion — rather than reverse — the drop in cash flow this year.

U.S. oil production close to record, but poised to decline

(Reuters; July 6) - U.S. oil and gas production continued to trend higher through April — a delayed response to very high prices in the middle of 2022 after Russia's invasion of Ukraine. Crude and condensates production from the Lower 48, excluding federal waters in the Gulf of Mexico, increased by 37,000 barrels per day in May compared with April. But the fall in prices and drilling rates since late 2022 is set to reduce output in the second half of 2023 and tighten markets for oil and gas later this year and into 2024.

Production in May increased by 986,000 barrels per day compared with the same month a year earlier, according to data from the U.S. Energy Information Administration. Lower 48 production ran at the second-fastest rate on record and only 70,000 below the previous peak of 10.52 million barrels per day in November and December 2019.

Experience shows U.S. production responds to a change in prices with an average lag of around 12 months, so near-record output in April 2023 reflects very high prices in the second quarter of 2022. In response to the fall in prices, the number of rigs drilling for oil and gas has fallen from an average of 780 in December 2022 to 687 in June 2023, according to data from oil field services firm Baker Hughes. The reduced rig count should ensure that Lower 48 production turns down in the third quarter of 2023 and continues to fall through at least the first quarter of 2024.

Russia's oil and gas revenue down 26% from a year ago June

(Bloomberg; July 5) - Russia's oil and gas revenue shrank by over one-quarter last month amid lower crude prices and capped natural gas flows to Europe. Budget proceeds from oil and gas taxes dropped 26% in June from a year ago to almost 529 billion rubles ($5.84 billion), the Finance Ministry said July 5. Natural gas receipts fell 54% to 125.7 billion rubles, while proceeds from crude and petroleum products — which account for over 76% of hydrocarbon revenue — declined by almost a tenth to 402.8 billion rubles, according to Bloomberg calculations.

Russia's war in Ukraine is straining the nation's coffers amid the rising cost of financing the Kremlin's military aggression while the economy is under Western sanctions. Taxes from the oil and gas industry remain a key source of revenue, even though they now contribute less than a third to Russian budget proceeds. Earlier this year, Russia tweaked the way it assesses oil prices for tax purposes in an effort to boost budget revenue after Group of Seven nations imposed a price cap on its oil sales and the European Union banned most seaborne imports of crude and products.

The drop in gas exports to Europe, once the biggest market for Russia's giant Gazprom, contributed the most to the decline in gas revenue. Proceeds from Russia's gas export duty fell 86% to 30.1 billion rubles. Revenue from the mineral extraction tax on gas reached 95.6 billion rubles, and comes amid a temporary increase of the duty for Gazprom of 50 billion rubles per month in 2023 to 2025.

Iran's oil exports double of a year ago, now at 5-year high

(Wall Street Journal; July 6) - Iran's oil exports have hit a five-year high in recent months as the country sells more to China and other countries, adding large volumes of discounted crude to a global energy market already struggling amid concerns over demand. The surge in Iran's oil supply threatens to upend efforts by Saudi Arabia to prop up prices by cutting output. Oil's value has fallen by about a fifth since late last year on expectations of a slowing global economy and a glut of cheap Russian cargoes.

It also shows how Iran is increasingly circumventing U.S. sanctions as the Biden administration quietly resumes talks with Tehran in a bid to win the release of American prisoners held by Iran and curb its growing nuclear program. Iran's shipments amounted to about 1.6 million barrels a day on average in June and May, according to commodity-data providers Kpler and Petro-Logistics, more than double of about a year ago and the highest since 2018, when the reimposition of U.S. sanctions caused a slump.

While the scale and final destination of Iran's oil sales are difficult to gauge, given their often covert nature, data from several firms monitoring the global energy trade indicate that China remains its top customer. Beijing directly imported 359,000 barrels a day of Iranian oil in May, up from about 266,000 barrels in the same month last year, according to Kpler. Industry watchers say Iran's actual sales to China are likely much higher and include oil transshipped through other Asian and Middle Eastern countries.

Iranian oil officials say the country is offering a discount of about $30 a barrel compared with its Gulf rivals, including Saudi Arabia, allowing it to compete with cheap Russian oil. For China, the supply of crude from Iran and Russia has allowed Beijing to hoard cheap oil as insurance in case the economy kicks into a higher gear and crude prices rise.

Shell CEO calls it ‘irresponsible’ to cut oil and gas production

(Associated Press; July 6) - The head of Shell says it would be “irresponsible” to cut oil and gas production at a time when the world economy is still dependent on fossil fuels. “The reality is, the energy system of today continues to desperately need oil and gas,” Shell CEO Wael Sawan said in an interview with the BBC released July 6.

“And before we are able to let go of that, we need to make sure that we have developed the energy systems of the future — and we are not yet, collectively, moving at the pace (required for) that to happen.” The comments conflict with the recommendations of climate scientists and U.N. Secretary-General Antonio Guterres, who has called on the fossil fuel industry to “drive, not obstruct” the transition to renewable energy. Burning fossil fuels is the biggest source of the carbon emissions blamed for global warming.

Guterres has said achieving the U.N. goal of limiting global temperature increases is still possible, but only if countries accelerate their efforts to cut carbon emissions. “Investing in new fossil fuels infrastructure is moral and economic madness,” he said in April. “Such investments will soon be stranded assets — a blot on the landscape and a blight on investment portfolios.” Sawan said he disagreed. “I think what would be dangerous and irresponsible is actually cutting out the oil and gas production so that the cost of living — as we saw just last year — starts to shoot up again,” he told the BBC.

Worker shortage a growing concern at North American LNG projects

(Reuters; July 10) - A coming wave of North American liquefied natural gas export projects faces staffing challenges that are prompting some of the biggest developers to expand training and coordinate projects to keep construction workers. There are eight export projects now underway that when completed would add 86 million tonnes per year of LNG production capacity. The projects have already created thousands of construction jobs and are soon to employ hundreds of operators.

Paul Marsden, head of Bechtel’s global energy business unit, which has built 30% of the world's LNG plants in the past 20 years, said industry, labor and education must work together to provide the training and workers to staff all the projects. "Labor has grown as an inflationary concern for everyone in the industry. We need to actively forecast and manage labor availability and supply chain like never before," Marsden said via email.

In the past, soaring construction costs have hurt U.S. LNG project economics and even led to bankruptcy for one major contractor, said Alex Munton, a director at consultancy Rapidan Energy Group. "We have multiple projects that are underway at the same time and four mega projects, with the possibility of a fifth to be announced soon," he said. "This will drive up labor costs, increase schedule risks and create productivity issues."

Some newer plants are employing modular and pre-built components to avoid the inflationary pressure of a stick-built plant by outsourcing some of the construction to countries with lower labor costs and then delivering the units to the project site.

Construction nearing end at LNG Canada in British Columbia

(Bloomberg; July 6) - LNG Canada will begin some start-up activity within the next year, with the first cargoes of liquefied natural gas scheduled to be shipped by the middle of the decade, the project's CEO said in an interview. The work to build a liquefaction plant and export terminal in Kitimat, on the British Columbia coast, is 85% finished, said Jason Klein, CEO of the global consortium led by Shell that's behind the C$40 billion (US$30 billion) venture, planned for 14 million tonnes per year capacity.

Since the invasion of Ukraine, which disrupted Russian gas pipeline supply to Europe and accelerated the rush to buy North American LNG, Canada's West Coast has been appealing to Asian buyers not wanting to compete with Europe. The shorter shipping distance to Asia and ample gas supply from massive basins such as the Montney and Duvernay in British Columbia and Alberta have been touted for decades.

The last of the major liquefaction modules for LNG Canada are scheduled to arrive by month end, Klein said. A total of 6,500 people are currently working at the site, finishing up construction. A planned second phase for the project is still under evaluation by the partners, which include Shell, Malaysia's Petronas, PetroChina, Mitsubishi and Korea Gas. Plans for an all-electric second phase to slash emissions will have to wait until more power can be supplied by the British Columbia Hydro and Power Authority.

LNG Canada will need new transmission lines for Phase 2 expansion

(Reuters; July 6) - The CEO of LNG Canada, the Shell-led liquefied natural gas export project under construction in British Columbia, said July 6 that discussions with the province about electrifying a second phase of the terminal have been "encouraging" but building new power transmission infrastructure remains a long way off. LNG Canada, a joint venture between five partners including Mitsubishi and Malaysia's state energy firm Petronas, is set to be Canada's first LNG export terminal. The project is 85% complete.

The first phase, producing 14 million tonnes a year, is on track to begin shipments around 2025, and LNG Canada is weighing whether to build a second phase to double annual capacity to 28 million tonnes. CEO Jason Klein told Reuters in January the venture plans to build Phase 2 with natural gas-powered turbines and switch to electricity as more renewable power becomes available, a decision that means the expansion project will initially generate high carbon emissions.

Using hydropower to run the turbines that cool the gas to liquid for shipping would limit emissions, but also require hundreds of miles of new transmission lines to reach the province's remote northwest coast. Klein said a final investment decision on whether to proceed with Phase 2 will take into account a number of factors including affordability and emissions. LNG Canada has been active in discussions with the province and BC Hydro, a government-owned power corporation, about finding ways to address future hydropower needs in northwestern B.C., Klein said in an interview.

Japanese buyers in talks with Qatar for long-term LNG supply

(Bloomberg; July 5) - Japan's natural gas buyers are in talks to strike new supply contracts with Qatar, driven by energy security concerns. Several Japanese companies are in negotiations for deals spanning decades to purchase liquefied natural gas from the producer, which is expanding its output, according to people with knowledge of the matter. Qatar is currently offering prices that the Japanese firms deem too high, a key issue that may ultimately scuttle discussions, said the sources.

The deals would be a change in strategy for Japan's LNG importers, which haven't signed a contract with Qatar since 2014 amid an effort to shift to more flexible exporters. Qatar's contracts are among the industry's most rigid, and don't allow for easy resale or diversion to other countries if the shipment isn't needed at home. Renewed interest in Qatar comes after last year's energy crisis prompted Japan's government to urge buyers to lock in supply and invest in projects to avoid future shortages.

Prime Minister Fumio Kishida plans to go to Qatar this month, the first visit in 10 years by a Japanese premier. Japan's LNG relationship with Qatar began to sour two years ago, when JERA, Japan's top LNG importer, didn't renew 5.5 million tons a year worth of contracts when they expired in 2021. That represented almost half of Japan's deals with Qatar. Japan's return would benefit Qatar, which still must sell much of the gas from its expansion project, which will boost its export capacity by 60% through 2027.

Chinese LNG buyer signs up for West Coast Mexico project

(Reuters; July 6) - Mexico Pacific said on July 5 it has struck a 20-year deal to sell a million tonnes of liquefied natural gas annually from its proposed Saguaro Energia export plant on Mexico's West Coast to China's Zhejiang Energy. The contract is the latest signed by Chinese LNG importers with producers including Qatar and the U.S. after market volatility last year pushed Asian spot LNG prices to record highs.

A Zhejiang Energy official said the supplies will be on free-on-board basis, with the first cargo in 2027, giving the company the flexibility to either supply the fuel to China or elsewhere. Zhejiang is one of China's second-tier LNG players, which are government-backed city gas distributors that have joined the global gas market alongside the country's dominant state traders. Mexico Pacific said its terminal offers the lowest landed price of North American LNG into Asia by leveraging low-cost gas from the Permian Basin and a significantly shorter shipping route that avoids the Panama Canal.

Privately held Mexico Pacific has yet to commercially sanction Saguaro Energia, which would be built on the Sea of Cortez in Puerto Libertad, Sonora, and use U.S. feed gas to produce LNG. The project would have a capacity of 14.1 million tonnes per year if all three liquefaction trains are constructed. Global LNG portfolio player Shell has agreed to off-take 3.7 million tonnes per year of LNG, assuming all three of the proposed liquefaction trains are constructed.

Lower LNG spot price prompts buying in China

(Reuters columnist; July 6) - China's imports of liquefied natural gas rose to a five-month high in June but tepid demand in the rest of the top-importing Asian region has kept a lid on spot prices. China is estimated to have imported 5.96 million tonnes of the fuel in June, according to data compiled by Refinitiv. This is the most since January and up from 5.54 million tonnes in May, as well being 28% higher than the 4.64 million offloaded in June last year.

The decline in the spot price for cargoes delivered to northern Asia to two-year lows in early June appears to have sparked some buying interest among Chinese utilities. The spot price slipped to $9 per million Btu in the week to June 1, the lowest since April 2021 and down 87% from its record high of $70.50 in late August as prices soared on supply fears and European-led demand in the wake of Russia's invasion of Ukraine.

The high spot prices had deterred Chinese buyers, who instead were just taking volumes bought under longer-term contracts, which are most typically priced against a crude oil benchmark such as Brent. It is believed that spot cargoes are viable for Chinese utilities only if the price drops below $10, given the natural gas has to compete with domestic and pipeline supplies in a market that has some regulated prices.

Thailand in talks with Qatar on LNG supply deal

(Reuters; July 7) - Thailand's largest energy company, state-controlled PTT, is in advanced talks with Qatar for a 15-year liquefied natural gas supply deal, four trading sources told Reuters. The oil and gas conglomerate is negotiating a supply of 1 million or 2 million tonnes per year, according to different figures cited by the sources, in what would be the latest in a spate of deals by Asian buyers to lock in long-term gas supplies.

A fifth industry source said that both companies are in "serious negotiations," but added that a deal isn't expected before the end of summer. Asian companies, with an appetite for long-term sales and purchase agreements, have outpaced Europe in locking in supply from Qatar's two-phase expansion plan that will raise its liquefaction capacity to 126 million tonnes a year by 2027 from 77 million. The Gulf energy giant has been in negotiations with several other Asian buyers this year and has so far signed three LNG supply deals with Asian buyers, with more expected later this year.

PTT signed a nine-year deal with Oman LNG at the start of the year, which will see it receive 800,000 tonnes of LNG per year beginning 2026. Thailand, a net oil and gas importer, needs to increase imports of LNG to offset a steep production fall at its gas fields. So far, the country has imported around 6 million tonnes of LNG this year versus 8.7 million in all of 2022, according to data firm Kpler.

Germany adopts legal reform to speed up LNG import terminals

(Reuters; July 7) – The German parliament on July 7 passed a legal reform to speed up construction of liquefied natural gas terminals off the Baltic Sea coast, defying resistance from local governments and environmental groups. Germany started accelerating construction of LNG infrastructure last year following Moscow's invasion of Ukraine that led to a drop in piped Russian gas imports to Europe's biggest economy.

The reform voted through on July 7 includes fast-tracking construction of two LNG floating terminals in Mukran on the Baltic Sea island of Ruegen with an annual capacity of 350 billion cubic feet of gas, to be operated privately by Deutsche Regas by the beginning of 2024. Some 370 parliamentarians voted in favor, 301 opposed and four abstained. Local municipalities, the state of Mecklenburg-Western Pomerania and several environmental groups have said the project would harm tourism and marine life.

Germany already has floating LNG terminals at Wilhelmshaven, Brunsbuettel and Lubmin. Two of those sites will be expanded. Two permanent terminals in Stade and Brunsbuettel and a privately operated one in Wilhelmshaven are to replace some of the floating stations from 2026, resulting in more capacity. Opponents say they would create overcapacity in excess of domestic demand. The government says the terminals would ease pressure on other European ports and help supply neighboring countries.

German resort town says it will go to court to stop LNG terminal

(Reuters; July 7) - A German resort town on July 7 said it will take legal action against the federal government's plans to build liquefied natural gas terminals off the Baltic Sea coast after the parliament passed a reform to speed up the process. Germany started accelerating the construction of LNG infrastructure last year after the sudden drop in piped Russian gas imports to Europe's biggest economy that followed the Ukraine war.

Both houses of Germany's parliament on July 7 backed the accelerated construction of two LNG floating terminals in Mukran on the Baltic Sea island of Ruegen, defying resistance from local governments and environmental groups concerned about the impact on tourism and marine life. An application process for a project of that scale usually takes about six years. The fast-track process could cut the time to weeks or months, Ruegen Gegen LNG, a local initiative opposing the project, said.

"Our lawyer has been instructed to now obtain interim orders to stop construction at the Federal Administrative Court in Leipzig against the LNG terminals and the pipeline," Karsten Schneider, mayor of the town Binz, said. Till Backhaus, climate minister in the state of Mecklenburg-Western Pomerania, which includes Ruegen, said the state did not support the project in its current form. With its beaches and white chalk cliffs, Ruegen is one of the top tourist attractions for Germans.

Production recovering after deadly explosion at Mexico platform

(Bloomberg; July 8) - Petroleos Mexicanos said it lost production capacity for about 700,000 barrels of oil, more than a third of its daily output, after a massive platform explosion on July 7 that left at least two people dead. The company is working to recover production, Pemex CEO Octavio Romero confirmed in a video late July 8, adding that output has already recovered more than 80% of the temporary loss.

Bloomberg News reported earlier that some 450,000 barrels of oil and more than 560 million cubic feet of gas, roughly 11% of Pemex's total natural gas output, were lost on July 7 at the Ku Maloob Zaap production asset as the company shut production as a contingency measure, according to a person with knowledge of the situation. While the one-day loss is significant, it's likely to be temporary as Pemex resumes some of its operations following the deadly blaze, the person said, asking not to be identified.

Two people died and one remains missing after Pemex reported an explosion at a gas processing center in the Cantarell field. Romero said the platform's connection module was destroyed, but that firefighting efforts stopped the fire from spreading. Pemex has come under scrutiny from analysts for its environmental and safety record after frequent accidents and explosions at its facilities. The company is shouldering $107.4 billion in debt, the most of any oil major, and is struggling under a liquidity crunch.