Oil and Gas News Briefs
Compiled by Larry Persily
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Oil discovery will test African nation's management abilities

(Bloomberg; Sept. 20) - It's touted by some as possibly the world's biggest-ever deepwater oil find. The discovery off the shores of Namibia last year by TotalEnergies and Shell of an estimated 11 billion barrels of crude has generated understandable excitement in the southern African country. Even if only a small portion is realistically recoverable, it holds the promise of untold riches for this nation of 2.7 million people.

But given what oil finds have spawned elsewhere on the continent, it's drawing a sobering dose of caution. "Poor management of the oil and gas sector can drive corruption and inequality that in turn will fuel social tensions and threaten political stability," Tom Alweendo, Namibia's minister for mines and energy, told an audience last month in the capital Windhoek. "It is imperative that the custodians of these resources possess the required skills and above all, that they have a high level of integrity."

Angola, sub-Saharan Africa's second-biggest oil producer, has seen the vast inflows from crude sales largely line the pockets of a tiny elite. Mozambique experienced massive graft that stemmed from borrowing against gas discoveries before they were even developed; the projects have since been held up by an armed insurgency. The corruption-infested industry in Nigeria left the Niger Delta with oil spills that have made it one of the Earth's most polluted areas while doing little to alleviate poverty.

Still, the waters of the Atlantic off the coast of Namibia have been abuzz with drilling activity as Shell and TotalEnergies appraise the fields to determine their commercial viability. The country could start producing oil by 2029. Much of the largesse will go to the government, with royalty, taxes and dividends from the state oil company accounting for 58% of each barrel of crude, according to Namibia's petroleum commissioner.

U.S. oil production expected to hit record 13 million barrels per day

(Wall Street Journal; Sept. 22) – U.S. crude oil production is on track to hit a record 13 million barrels a day in September, according to Rystad Energy projections, matching the highest monthly output before the pandemic cratered demand for fuel. The industry returned to pre-COVID-19 levels slowly as well productivity plateaued and Wall Street pushed companies to prioritize profits. Still, firms are grinding out incremental gains in part with technology to enable drilling horizontal wells farther and faster through shale.

U.S. shale "is not growing as fast as before," said Alexandre Ramos-Peon, Rystad's head of shale research. "But it doesn't mean that shale has to decline." The only other month that Rystad has reported U.S. monthly production at 13 million barrels a day was November 2019. "Everything points to still slow but continuing growth," Ramos-Peon added. How long that growth lasts has big implications for America's fuel-hungry commuters, manufacturers and farmers.

Recent higher prices are already enticing some producers to expand drilling projects. But Ramos-Peon said companies remain surprisingly cautious. The upshot, he said, is the "U.S. shale industry is forfeiting a little bit of market share to OPEC and others."

High prices not completely good news for oil companies

(Wall Street Journal; Sept. 23) - Rising oil prices are, generally speaking, wonderful for companies that pump it out of the ground. But only up to a point. After spending most of this year below $90, the global benchmark Brent price edged above that threshold in early September after Saudi Arabia and Russia said they would extend voluntary oil production cuts through the end of the year. Now even some bearish analysts are forecasting that it could hit triple digits, at least briefly.

While shares of oil and gas producers mostly moved in lockstep with the price of oil over the past year, that relationship has tellingly broken down. Since Sept. 8, when Brent crude closed above $90 a barrel, oil prices have risen by another 2.6%, while an index of oil producers has declined 5.3%. There is good reason for energy investors to think less is more. One reason for caution is high prices' impact on demand. Generally, prices above $100 tend to be motorists' pain point, spurring some to drive less.

The risk of a pullback in fuel consumption is especially high in developing countries. While oil prices and the value of the U.S. dollar often move in opposite directions, they have been rising in tandem recently, notes Ilia Bouchouev, managing partner at Pentathlon Investments. That places extra pressure on countries such as China and India that must buy dollar-denominated oil. "It causes a double whammy, where oil price appreciation is amplified by U.S. dollar strength and local currency weakness," he said.

And crossing a psychologically significant price is likely to elicit government responses that are unfavorable to energy companies. Record oil company earnings last year prompted the European Union to impose a windfall profits tax on fossil fuel companies. What is the sweet spot then? Dan Pickering, chief investment officer at Pickering Energy Partners, estimates that oil at $75 to $90 a barrel is the price at which producers make acceptable returns and where demand is "right on the edge of being crimped."

Canadian oil line expansion project will impact multiple markets

(Bloomberg; Sept. 21) - Canada, home to the world's third-largest crude deposits, is poised to reshuffle global oil flows next year. The nearly completed expansion of the Trans Mountain pipeline promises to vault Canada into a new role in global markets by transporting an additional 600,000 barrels a day from the country's vast oil sands to a Pacific Coast port. For producers, the government-owned project offers a chance to break their almost total dependence on exports to the U.S. and win higher prices.

For global markets, the expansion represents a new source of the heavy, sludgy oil that many refineries in India and China crave for making transportation fuels and asphalt. The 715-mile project — which essentially twins a 1950s-era line — had been expected to start operating the first quarter of 2024 but could be delayed by technical challenges at a tunneling segment. The project already has been delayed for years — and seen its costs balloon — because of opposition from environmentalists and Indigenous groups.

Trans Mountain runs from landlocked Alberta to the coast. The original line, Canada's only pipeline to the Pacific, is 70 years old and supplies oil mainly to refineries in British Columbia and Washington state. Twinning the line will boost capacity to 890,000 barrels a day from about 300,000 barrels currently. The U.S. West Coast is "an easier fit for the majority of volumes early on," said John Coleman, Wood Mackenzie's research director.

In the near term, Canadian crude would have a tough time breaking into an Asian market that's currently flooded with Russian oil, Coleman said. Longer term, trips to Asia are more economical in supertankers. The expanded pipeline could also roil flows inside the U.S., reducing the volumes piped to the Midwest and Texas. Last year, Canada accounted for 100% of oil imported by Midwest refiners and a third of foreign oil used on the Gulf Coast, home of one of the world's largest refining hubs.

Canadian oil goes overseas as U.S. refineries slow for maintenance

(Bloomberg; Sept. 22) - Canadian crude exports out of U.S. Gulf Coast terminals are primed to soar in October as production cuts by Saudi Arabia and Russia stoke overseas demand, while U.S. refinery maintenance means more of the oil is freed up for shipment. Shipments of Canadian oil are expected to reach 11 million barrels next month, the second-highest on record, according to traders in the market, who spoke on condition of anonymity. That's almost a sixfold jump from September's exports.

Volumes have soared as U.S. refineries, typically the biggest takers of heavy Canadian crude, carry out planned maintenance and consume less oil, freeing more barrels for buyers in Asia and Europe. Less demand from U.S. refineries coincides with the end of maintenance season at Alberta's oil fields, bringing back output that was down for part of summer. The extra volume comes amid a global supply squeeze after Saudi Arabia and Russia curtailed production, upending flows and boosting Canadian oil prices.

Oil sands barrels, produced in landlocked Alberta, reach the water via an intricate web of pipelines that cross the U.S. to ports in Texas, and from there is shipped to refineries in China, India and Spain. The oil, heavy and sulfurous in quality, is a favored type by U.S. fuel makers, but seasonal refinery work is freeing more barrels for markets outside North America. BP's Whiting refinery, one of the largest users of Canadian oil in the U.S., will curtail intake amid maintenance that's expected to last through late October.

China's oil demand based on Russian discount, not fundamentals

(Wall Street Journal; Sept. 21) - Drivers are starting to feel the pain at the pump again as oil moves closer to $100 a barrel. Supply cuts from Saudi Arabia and Russia could push global oil prices higher still. But China, the world's top crude importer, will have a say too. And while Chinese oil-demand growth appears to have improved modestly in August, there are still two key reasons markets might be overestimating the likely extent of Chinese demand and its impact on global benchmarks such as Brent oil in late 2023.

First, China has moved aggressively into discounted Russian oil in recent months. Second, Chinese oil imports still are running well ahead of fundamental demand, and its exports of surplus refined products, particularly diesel, are rising sharply. China has made it clear it considers Western sanctions on Russia to be illegitimate and continues to import large amounts of Russian crude. With global oil benchmarks heading skyward, China's relations with the West as fraught as ever, and Russian crude still trading at a significant discount, there is every reason to expect China's imports to persist.

Yet, there is no guarantee that China's imports will keep rising rapidly. For most of 2023, China appears to have been aggressively filling its oil reserves, taking advantage of lower prices. But at higher prices, maybe not. China's economic growth could always surprise on the upside in late 2023 — although currently a stabilization rather than a strong rebound looks more likely. Still, China may have other reasons to keep filling its reserves, even at higher prices, given its heavy focus on security and self-reliance. But anyone betting on a China-driven price spike in late 2023 is likely to be disappointed.

Oil execs warn government policies are deterring investment

(Reuters; Sept. 20) - Government policies to fight climate change are discouraging oil companies from investing heavily in new production even as they turn in record profits — a dynamic that could spell tight supply and high prices as clean-energy alternatives seek to fill the void. Crude oil prices have surged above $90 a barrel and some analysts predict they will nudge above $100 by year's end. But instead of spending big to boost output, companies are boosting dividends or buying back shares to reward investors.

Environmental groups say slowing oil production growth could accelerate a move to renewable energy and curb carbon emissions. However, lack of drilling investment could exacerbate energy shortages in poor countries and fuel inflation, company executives warned at the World Petroleum Congress in Calgary this week. "If we don't maintain some level of investment in the industry, you end up running short of supply which leads to high prices," ExxonMobil CEO Darren Woods said.

Woods said oil and gas reserves are depleting at 5% to 7% a year, and output will decline if companies stop investing. "The current transition shortcomings are already causing mass confusion across industries that produce and or rely on energy," said Aramco CEO Amin Nasser. "Long-term planners and investors do not know which way to turn." Global upstream investment is expected to reach $579 billion in 2023, a modest increase from the annual average of $521 billion between 2015 and 2022, according to consultancy Rystad Energy. Oil and gas investment peaked in 2014 at $887 billion.

U.S. homes that heat with gas expected to save money this winter

(CNN; Sept. 20) - After several years of skyrocketing winter heating costs, millions of Americans are expected to finally get a little relief this coming season — if they heat their homes with natural gas, that is. Natural gas heating, which is used by just under half of U.S. homes, is expected to cost an average of $726 this winter, down 7.8% from last year, according to an estimate released Sept. 20 from the National Energy Assistance Directors Association.

But those using home heating oil will likely get walloped once again. The cost is expected to jump to an average of $2,275, up 8.7% from last year, as oil prices rise due in part to recent decisions by Russia and Saudi Arabia to cut back on production. “If you are up in New England, this is scary. It’s going to be another expensive year for families using oil,” said Mark Wolfe, the energy assistance association’s executive director.

Even with the projected drop in natural gas heating costs, families are still shelling out far more than they were in the winter of 2020-2021, when it only cost them $573, on average, for the season, according to the association. Those using heating oil have seen their costs explode since that winter, when they paid only $1,212, on average. “For the foreseeable future, home energy is going to be expensive,” Wolfe said. “We are not seeing the prices we saw three or four years ago.”

China’s gas demand back on the rise after decline in 2022

(Bloomberg; Sept. 21) - China's natural gas demand this year is expected to grow by 8% from 2022, an analyst from state-owned oil major CNOOC's research division said, a pace higher than analysts' forecasts, as cooling gas prices and China's economic recovery push demand higher. Xie Xuguang, from CNOOC Gas and Power Group's research center, told a conference on Sept. 21 that China's total gas demand may reach almost 14 trillion cubic feet this year.

Imports of liquefied natural gas are expected to reach 70.79 million tonnes this year, up 10.9% from last year, while pipeline gas imports are predicted to come in at 10.7% above the 2022 level, Xie said. The CNOOC forecast for demand growth is higher than that of three other analysts and comes after a rare decline in 2022, when China's gas demand slipped 1% amid rigid COVID-19 controls that slowed the country's economy.

This year's growth is driven by China's economic recovery and cooling LNG prices, Xie pointed out. "We're expecting industrial gas demand to recover in the second half. And the normalizing global gas prices are also going to stimulate demand," Xie said. Part of that growth will be met by domestic gas production, which the CNOOC research team predicted rising 4.6% over 2023 to almost 8 trillion cubic feet. CNOOC noted that China's dependence on foreign imports was likely to increase in the coming years.

After 60 years, Europe's largest gas field will shut down Oct. 1

(Reuters; Sept. 22) - The Dutch government on Sept. 22 confirmed plans to halt output next month at Europe's largest gas field, Groningen, a decade after tremors blamed on drilling damaged buildings. Production will halt Oct. 1, the government said, confirming a June draft decision. "After 60 years, gas extraction from the Groningen field will come to an end," the Economic Affairs Ministry said in a statement. "All extraction locations will be demolished from October 2024 so that restarting is no longer possible."

Gas production at Groningen has wound down over the past decade due to the danger posed by earthquakes it triggers. Production in the 2022-2023 year that ends Oct. 1 had been capped at about 100 billion cubic feet. The giant field's peak production was in 1976, at 3.1 trillion cubic feet, averaging more than 8.5 bcf a day. An unusually strong earthquake in 2018 led the government to decide to rapidly end all production.

New York City gas utility was close to operational failure last winter

(Energy Wire; Sept. 22) - The natural gas system in New York City nearly failed and left a million customers without heat last Christmas Eve, federal regulators said Sept. 21. The near-emergency — not previously disclosed publicly — occurred during Winter Storm Elliott, which brought below-freezing temperatures to the eastern U.S. for several days in December. Had Consolidated Edison — New York state's largest utility — not taken emergency action, gas heating could have been shut off for months in "all or portions" of its territory, according to Federal Energy Regulatory Commission staff.

“This would’ve been catastrophic. Everyone should be concerned enough to take action on this report and recommendations when they come out, immediately,” FERC acting Chair Willie Phillips said after the commission’s monthly meeting. FERC, which oversees the electric power system, and the North American Electric Reliability Corp., a nonprofit that enforces grid reliability, shared highlights from a final report about the storm’s power and gas impacts during the meeting.

The morning of Dec. 24, 2022, ConEd declared a gas emergency as pipeline pressure declined rapidly, effectively halting gas flows at a utility station in Manhattan. At the time, cold temperatures across the country had caused natural gas production to decline, and pipeline operators reduced pipeline pressure in response. The incident was among the revelations included in findings by FERC and the North American Electric Reliability Corp. It underscores growing concerns about the reliability of the nation’s electric and gas systems amid severe weather made more frequent by climate change.

FERC approves expansion at Sempra’s Port Arthur, Texas, LNG plant

(The San Diego Union-Tribune; Sept. 22) - A subsidiary of San Diego-based Sempra has received federal approval to expand a liquefied natural gas plant it is building on the Texas Gulf Coast. The Federal Energy Regulatory Commission gave the OK for Phase 2 of Port Arthur LNG, a move company officials described as a “major regulatory milestone.” Phase 1 of the $13 billion Port Arthur project is already under construction.

Phase 1 will provide 13 million tonnes of annual LNG production capacity; Phase 2 would double that if the company proceeds. Not everyone cheered the news. Port Arthur is home to multiple refineries, energy and petrochemical plants, and the Port Arthur Community Action Network is opposed to further development in the area. “Sempra emissions will significantly add more toxins, more pollution into our air, inflicting more suffering on people who have little means to fight back against billion-dollar companies or the government,” John Beard, the group’s CEO, said in an email.

Not far from Port Arthur LNG, Sempra operates and is majority owner of Cameron LNG, a $10.5 billion export facility in Louisiana that opened in August 2020. LNG supporters say the fuel has helped reduce net global greenhouse gas emissions because it is a much cleaner fuel than coal, although climate activists say exporting LNG extends the world’s dependence on fossil fuels. In addition to Port Arthur and Cameron, Sempra is building an export component to an underused LNG import terminal near Ensenada, Mexico, called Energía Costa Azul, that is expected to be completed by mid-2025.

Mexico’s first floating LNG production plant close to start-up

(Reuters; Sept. 22) - The last major piece of infrastructure needed to start production at Mexico's first floating liquefied natural gas production plant is set to depart from a Texas shipyard next week, the U.S. Coast Guard said in a notice to shippers. LNG developer New Fortress Energy is planning to begin production at the 1.4 million-tonnes-per-year floating plant off the coast of Altamira, Mexico, in the coming weeks. The company had said in August that the first cargo from the project should depart in October.

The first of three units that will comprise the floating LNG facility arrived in Mexican waters in late August. The second departed last week from Kiewit Offshore Services' Ingleside, Texas, shipyard, according to the Coast Guard. Altamira's first LNG plant is part of a wider project by New Fortress and Mexico's state-owned power utility CFE to build a $1.3 billion hub to convert U.S. and Mexican gas into LNG for export. Two additional floating LNG plants are under construction, with start-up planned for 2025.

New Fortress in June was granted a permit by Mexico to export LNG through April 2028. It had previously received authorization from the U.S. Department of Energy to export gas to Mexico. New Fortress in 2021 bought oil rigs from Maersk Drilling to convert into floating LNG plants. While a typical floating LNG facility can cost more than $4 billion and take up to five years to build, converting jack-up drilling rigs is faster and cheaper, costing some $500 million each.

U.S. tightens sanctions on Gazprom subsidiary

(The Barents Observer; Norway; Sept. 21) - A subsidiary of Russian natural gas producer Gazprom will soon experience additional problems with getting access to equipment and technology and working with foreign partners. Along with several more Russian companies operating in the Arctic, Gazprom Nedra is included in the updated sanctions list issued by the U.S. Treasury on Sept. 14.

Gazprom Nedra is one of Russia’s biggest oil and gas service companies and operates several of the rigs used for exploration of the country’s Arctic shelf. As the sanctions were announced, the company’s rig Arkticheskaya was busy with drilling in the Kara Sea. Over the past years, the Arkticheskaya has made several discoveries in Russian Arctic waters, including in the Skuratovskoye license area in the Kara Sea.

The sanctions against Gazprom Nedra will affect its ability to obtain technology and cooperate with international partners. They could ultimately also compromise operations as it becomes harder for the company to obtain spare parts and equipment.

Strike ends as Chevron and unions settle contract terms

(Bloomberg; Sept. 21) - Chevron and labor unions reached an agreement to end strikes at key liquefied natural gas facilities in Australia that have roiled the global market for the fuel. Workers accepted a proposed settlement on pay and conditions put forward by the country's labor regulator and will suspend their industrial action, the Offshore Alliance, a grouping of two major unions, confirmed in a statement Sept. 21.

The agreement includes improvements on pay, job security and work rosters. The move to accept the regulator's terms effectively resolves a dispute that triggered industrial action from Sept. 8 at the Gorgon and Wheatstone facilities, which accounted for nearly 6% of global LNG supply last year. Workers at the Chevron sites ramped up their initial wave of disruptions last week, beginning a series of 24-hour stoppages.

While Australia isn't a major gas supplier to Europe, the prospect of missed deliveries has raised the risk of tighter seaborne trade — and increased competition for available cargoes — during peak demand season in the Northern Hemisphere winter.

France's Engie plans major spending on biomethane

(Bloomberg; Sept. 21) - French utility Engie may spend about €2 billion ($2.1 billion) by the end of the decade to buy and upgrade biomethane assets in Europe as customers switch away from fossil fuels. European Union nations are increasingly supporting the use of renewable gases such as biomethane, which is made by recycling agricultural and other organic waste, to replace natural gas and fight global warming.

Engie said this year it plans to invest €3 billion overall to boost its biomethane production by more than 10-fold by 2030 in Europe. One-third of that may be spent on developing its own projects, while about two-thirds could be used for acquisitions of companies or plants, as well as their modernization and expansion, Camille Bonenfant-Jeanneney, head of renewable gases in Europe, said in a presentation on Sept. 21.

"We have projects under development or acquisitions in the Netherlands and Germany, and greenfield projects in Italy, Poland and Belgium," while Engie also plans to expand in France, the U.K. and Spain, Bonenfant-Jeanneney said.