Oil and Gas News Briefs
Compiled by Larry Persily
September 28, 2023

OPEC+ profits from slow investment by U.S., European oil companies

(Wall Street Journal; Sept. 26) - Frugal U.S. and European oil and gas companies are making it easier for Saudi Arabia and Russia to fund their political maneuvers. With recently extended production cuts, the Saudi-led OPEC and its Russia-led allies are betting that Western producers won't respond to higher energy prices as much as they used to. So far, so good for OPEC+. Even with oil trading above $90 a barrel, 11 fewer rigs were operating in the U.S. on Sept. 22 than one week earlier, and 134 fewer were operating than a year ago, according to oil field services company Baker Hughes.

The likes of ExxonMobil and Chevron are under pressure to hand cash to shareholders after years of poor returns. Listed U.S. oil producers are only reinvesting half of their operating cash flows today, compared with 90% or more in the years leading up to the pandemic, according to Goldman Sachs analyst Daan Struyven. This may have reassured OPEC+ that it can curb supply, even at unusually high oil prices, without losing as much market share as it did at the peak of the shale boom.

Europe's Shell and BP are even less likely to respond quickly to today's high prices as their projects, especially offshore, can take years to begin production. Record-high oil demand and lower-than-expected OPEC+ supply point to a shortfall of more than one million barrels a day in the last quarter of 2023. Looking ahead to 2024, an additional one million barrels a day will be needed to meet demand, according to estimates by analysts at wealth-management firm Bernstein. Non-OPEC supply may only meet roughly half of this, so the world will need to rely on the cartel to open the spigots.

Analysts consider factors that could cut short oil price rally

(Reuters; Sept. 25) - Oil prices may be near $100 a barrel but a range of factors could prevent a sustained rally above that level, analysts say. They include a projected rise in non-OPEC production, in addition to Russia's need to boost its own production to increase revenue, and certainly the potential for oil demand to slow given already high interest rates in major Western economies. Brent peaked at nearly $96 a barrel last week and U.S. West Texas Intermediate hit $91 a barrel for the first time this year.

A growing number of analysts forecast Brent will surpass $100 a barrel this year as demand rises, supply is constrained and stocks of fuel and crude are relatively low. But non-OPEC+ output growth could calm any rally. Goldman Sachs sees non-OPEC+ supply rising by 1.1 million barrels per day by next year, while the International Energy

Agency has forecast growth of 1.3 million barrels per day. Brazil, Guyana and the United States are among the countries expected to increase output.

The return to investment in offshore production also make a long-term rally less likely, Goldman analysts said, adding "most of the rally is behind us.” In addition, high interest rates are already curbing demand across Western economies, including for oil. For OPEC's de facto leader Saudi Arabia, the perennial issue of achieving prices high enough to reward producers without pushing the market to a level that destroys demand and tips the economy into recession is likely to resurface in policy considerations.

World consumes more oil as Saudi Arabia, Russia cut production

(Bloomberg; Sept. 26) - For the first time this year, there’s a realistic prospect of crude oil reaching $100 a barrel, a sudden turnaround for a market that not long ago was in the doldrums. The surge threatens to drag down consumer spending and with global growth, while filling government coffers for major producers. Meanwhile, worldwide consumption of the fossil fuel hit an all-time high of 103 million barrels a day in June, as estimated by the International Energy Agency, showing that humankind is making little progress in weaning itself off the planet-warming commodity.

Oil analysts and energy executives are reviving talk of triple-digit oil after a scorching summer rally. Russia and Saudi Arabia made good on pledges for deep output cuts, and now they have extended those to the end of the year. Supply is being curbed at a time when demand shows no signs of flagging, helped by a U.S. economy that has defied predictions of a hard landing. Producing nations such as Saudi Arabia, are buoyant.

The kingdom dispatched a large delegation to the Sept. 17-21 World Petroleum Congress in Calgary and hosted a lavish dinner for attendees that included government officials, oil investors and executives from oil majors. OPEC consistently says it doesn’t target a particular oil price, but in a Sept. 20 interview with Bloomberg TV, Iraqi Prime Minister Mohammed Shia Al-Sudani gave a clue about what OPEC sees as a fair price for consumers and producers alike. “Certainly, it is not less than $85 to $95,” he said.

U.S. crude tops $94 a barrel; highest since August 2022

(CNN; Sept. 27) – U.S. oil prices topped $94 a barrel on Sept. 27 for the first time in over a year, threatening to push up prices at the pump and inflation across the economy. The latest gains came after federal data showed crude inventories fell by more than expected last week. Stockpiles at the closely watched Cushing, Oklahoma, crude oil storage hub plunged to nine-year lows.

“There’s not a lot of oil there, and that’s causing some nervousness,” said Tom Kloza, global head of energy analysis at Oil Price Information Service. U.S. crude prices jumped as much as 4% to $94.04 a barrel on Sept. 27 — the highest intraday price since Aug. 30, 2022 — before settling at $93.68 a barrel, up 3.6% on the day. The rally is hitting after a number of Wall Street banks ramped up their oil price forecasts in light of the aggressive supply cuts imposed by Saudi Arabia and Russia.

Bank of America expects global benchmark Brent to average $91 for the second half of this year, up from $81 previously. Goldman Sachs recently warned oil will average $100 this time next year. Analysts also said bullish bets by hedge funds and other speculators have helped fuel the rally. But the oil price rally may be overdone, said Robert Yawger, vice director of energy futures at Mizuho Securities. The latest Energy Information Administration data was “highly questionable,” he said, because it showed inventories dropped even as imports increased, exports fell and less oil went through refineries.

IEA restates view that global demand for fossil fuels will peak by 2030

(The Canadian Press; Sept. 26) - Even if no new government climate policies are introduced before 2030, global demand for fossil fuels will still peak before the end of the decade, a new report by the International Energy Agency states. The report, released Sept. 26, says the worldwide rollout of key technologies such as renewable power, electric vehicles and heat pumps is happening so quickly that demand for coal, oil and natural gas is set to peak within the next 10 years.

The IEA says this means that no new major oil and gas extraction projects are needed anywhere around the globe, nor any new coal mines, mine extensions or unabated coal plants. “If the world is successful in bringing down fossil demand quickly enough to reach net zero emissions by 2050, new projects would face major commercial risks,” the IEA stated. Still, the report’s authors pointed out that while the transition is occurring, more needs to be done to hold global warming to the target the international community agreed to at the 2015 climate summit in Paris.

The world is set to invest a record $1.8 trillion in clean energy in 2023, but the IEA said that needs to climb to $4.5 trillion by the early 2030s in order to achieve net-zero by 2050. “The energy sector is changing faster than many people think, but more needs to be done and time is short,” the report states.

U.K. approves major North Sea oil and gas project

(Associated Press; Sept. 27) - Britain on Sept. 27 gave the go-ahead for a major North Sea oil and gas project, ignoring warnings from scientists and the U.N. that countries must stop developing new fossil fuel resources if the world is to avoid catastrophic climate change. The North Sea Transition Authority approved development of the Rosebank field, allowing owners Equinor and Ithaca Energy to move forward with the project about 80 miles northwest of the Shetland Islands.

The authority is the regulator charged with maximizing the economic benefits of Britain's North Sea energy resources and helping the country meet its goals for reducing carbon emissions. The decision comes as Prime Minister Rishi Sunak's government faces criticism for watering down its environmental commitments ahead of an election that is expected next year. The government argues that Britain needs projects like Rosebank to bolster domestic oil and gas production, control costs for consumers and provide "energy security" as the U.K. makes the transition from fossil fuels to renewable energy.

Production from Britain's North Sea fields, which were first developed in the early 1970s, has declined steadily over the past quarter century. The fields produced the equivalent of about 1.3 million barrels a day in May, down 75% from the peak in 1996. One of the largest untapped deposits in U.K. waters, Rosebank holds an estimated 300 million recoverable barrels of oil, Equinor said. Norway-based Equinor, which owns 80% of Rosebank, said the two partners plan to invest $3.8 billion in the project. The first phase will begin production in 2026-2027.

Russia orders ban on fuel exports in fight with oil companies

(Wall Street Journal; Sept. 26) - Russia, one of the world's biggest oil exporters, is suddenly running low on fuel at home. The shortages are causing heightened tensions between the Kremlin and Russia's oil companies, including the ousting of executives at state-controlled Rosneft Oil. The drama came to a head when rocketing fuel prices, particularly in southern agricultural heartlands, led Russia's government to bar diesel and gasoline exports this month.

The blockade delivered relief to Russian businesses as domestic fuel prices tumbled after the ban kicked in, but diesel prices rose in the rest of the world. Unlike in 2022, when Moscow cut natural gas exports to inflict pain on Europe, this self-imposed blockade aims to limit the economic and political fallout of high fuel prices at home. The supply shock shows the mounting economic cost of waging the war.

The government and oil companies are at odds over the balance between profits and stability in the domestic energy market. The government appears to have been exerting more pressure to prioritize domestic supplies, in part to help in the fight against inflation. Payments, called dampers, partially compensate companies such as Rosneft for sales of petroleum products on the domestic market. Sales at home, where Russia pressures suppliers to keep a lid on retail prices, are often much less profitable than exports.

The government cut damper payments in half starting this month, and the companies fought back. They exported more oil and refined products overseas, while shutting some refiners for longer than normal to cut domestic sales. Moscow responded by banning most exports of diesel and gasoline. A longstanding ban would have big implications: Russia has about 15% of the international seaborne diesel market.

Canadian regulator approves route change for oil pipeline

(The Canadian Press; Sept. 25) - The Canada Energy Regulator has approved Trans Mountain's application to modify the oil pipeline's route, a decision that could spare the government-owned Alberta-to-West Coast pipeline expansion project from a further nine-month delay. The regulator made the ruling Sept. 26, just one week after hearing oral arguments from Trans Mountain and a British Columbia First Nation that opposes the route change. The regulator didn't release the reasons for its decision.

By siding with Trans Mountain, the regulator is allowing the pipeline company to alter the route slightly for a 0.8-mile stretch of pipe in the Jacko Lake area near Kamloops, B.C., as well as the construction method for that section. Trans Mountain had said it ran into engineering difficulties in the area related to the construction of a tunnel, and warned that sticking to the original route could result in up to a nine-month delay in the pipeline's completion, as well as an additional $86 million more in project costs.

Trans Mountain has been hoping to have the pipeline completed by early 2024. But its application for a route change was opposed by the Stk'emlupsemc te Secwepemc Nation, whose traditional territory the pipeline crosses and who had only agreed to the originally proposed route. In their regulatory filing, the First Nation stated the area has "profound spiritual and cultural significance," and that they only consented to the pipeline's construction with the understanding that Trans Mountain would minimize surface disturbances by tunneling — a plan the company now wants to change.

Green investors not happy with U.K. plans to slow energy transition

(Bloomberg; Sept. 25) - Some of the world's biggest green investors are dismayed and bewildered as they struggle to digest the U.K. government's intention to wind back key climate commitments. "It was a complete shock," said Ian Simm, founder and CEO of London-based Impax Asset Management, a low-carbon fund investor overseeing close to $50 billion in assets. Britain's official policy now represents "a risk for anyone considering an investment in the U.K. that's dependent on government policy," he said.

The watered-down climate goals announced by Prime Minister Rishi Sunak last week would delay the take-up of electric vehicles and the rollout of clean heat for British homes. It's the latest in a string of similar policy adjustments that include expanding North Sea oil and gas production. The upshot is the U.K., which just a few years ago declared its goal of being a global leader in all things green, is now actively undermining its chances of hitting net-zero emissions by mid-century.

For Impax, the takeaway is there'll now "be fewer developers of projects in the green space," which means "less deal flow for us," Simm said in an interview. Sunak said in a speech last week that he would push back by five years to 2035 a plan to bar the sale of new petrol and diesel cars, casting the decision as an effort to protect families struggling with bills. Sunak also announced a 50% increase in funding to install heat pumps in homes and said gas boilers in existing homes will be phased out beginning in 2035, but they will only need to be replaced once the boiler breaks.

Qatar/Exxon Golden Pass LNG in Texas set for start-up next year

(LNG Prime; Sept. 26) - QatarEnergy and ExxonMobil have released the latest construction update for their giant Golden Pass LNG export plant on the U.S. Gulf Coast near Sabine Pass, Texas, as they work to launch the first liquefaction train next year. State-owned QatarEnergy owns a 70% stake in the Golden Pass project with a capacity of more than 18 million tonnes per year and will offtake 70% of the capacity, while ExxonMobil has a 30% share.

A joint venture of Chiyoda, McDermott and Zachry is building the three trains worth about $10 billion next to an existing but unused or underused LNG import terminal. Golden Pass LNG said in the latest construction report filed with Federal Energy Regulatory Commission that work continues on storm water protection and levee construction, along with installation of piping and steel in processing and utilities areas.

The company requested authorization to allow it to begin the commissioning and start-up of the nitrogen system by Nov. 10. As per the start of operations, the FERC said in an inspection report on Aug. 30 that the anticipated in-service timing for the first Golden Pass train is the second half of 2024, with the second and the third train following after.

Qatar says it could have all its LNG expansion capacity sold this year

(S&P Global; Sept. 25) - Qatar says its liquefied natural sales from the North Field expansion are "going very well," and "there is a possibility" of selling all of the LNG from the massive project by the end of 2023, Qatar's Minister of State for Energy Affairs Saad al-Kaabi told S&P Global Commodity Insights on Sept. 25. Kaabi, who is also president and CEO of QatarEnergy, spoke with S&P Global on the sidelines of the Tokyo GX Week 2023. He declined to elaborate on specific commercial negotiations.

S&P Global reported July 3 that a couple of Japanese companies were in negotiations with Qatar for LNG supply contracts as well as equity participation in the expansion project. Kaabi said in May that Qatar expected to lock in long-term LNG contracts for the two phases of the expansion by the end of this year. Unlike other LNG export project developers that lock in much of their production into long-term contracts before going to construction, Qatar started work with the belief that it would soon put customers under contract. QatarEnergy is raising its LNG production capacity from 77 million tonnes per year currently to 126 million by 2027 with an additional six liquefaction trains.

BP-operated offshore LNG project in Africa behind schedule

(Bloomberg; Sept. 25) - As Europe seeks out imports of liquefied natural gas to fill the gap left by Russia, one new supply source won't be ready for winter. Straddling the maritime border of Senegal and Mauritania, the Greater Tortue Ahmeyim development could supply as much as 2.5 million tonnes of LNG a year, just two weeks voyage from Europe. But first gas from the BP-operated project remains elusive after pandemic-related issues and disputes with contractors had delayed start-up from this year to next.

The delay comes amid growing jitters in the global LNG market. Europe still has a huge appetite for the fuel. Volatility has returned, with the threat of strikes at key LNG facilities in Australia causing price swings of as much as 40% last month. "It's clear that the market needs additional supply volumes," said Lucas Schmitt, research director for short-term LNG at Wood Mackenzie. Even if Tortue is relatively small, supply additions next year will be "fairly limited," so any delays contribute to a tightening market, he said.

Tortue is now expected to start gas production in the first quarter of next year, according to BP. It typically takes about three months to go from first gas to first LNG, Kosmos Energy, a partner in the project, told analysts last month. That would put the first cargo around the middle of 2024. The delay has several causes. Houston-based McDermott International, which was contracted for subsea work at Tortue, paused work over a payment dispute with BP, according to a source. BP has since hired Saipem and Allseas for the final stretch of work, according to sources. BP is also involved in an arbitration proceeding with Golar LNG, which will provide the production vessel for the field.

German utility expects gas demand to continue through 2030s

(Bloomberg; Sept. 25) - Natural gas demand in Europe won't tail off until at least the end of the next decade, according to Uniper. The German utility recently negotiated a deal for U.S. liquefied natural gas supply that "goes out to the very late 2030s," Peter Abdo, its chief commercial officer for LNG and global origination, said. Beyond that timeframe, the signals are unclear. "We just haven't seen anything come into the market that really suits us into the 2040s that gives us the flexibility that we need," he added.

Companies are trying to figure out how big a role gas will play in the shift to a greener economy, with signs this month that national governments — notably the U.K. — are decelerating their efforts in response to rising costs. Projections for gas usage in the coming decades vary wildly, depending on how quickly the energy transition occurs. The International Energy Agency expects LNG demand to rise until the middle of the 2020s, though after that point, its forecasts diverge, according to last year's outlook.

Shell sees European gas demand increasingly exceeding supply through the current decade. Germany, a pioneer in the energy transition, has been making space for the role of gas following the energy crisis in 2022. It already has three LNG import terminals in operation and is planning more. The German government bailed out Uniper after Russia curbed pipeline gas supplies — previously the backbone of the company's business — in the fallout of the Kremlin's war in Ukraine. When European gas prices surged to records, traders including Uniper doubled down on their efforts to import LNG.

Germany will deter LNG importers from diverting cargoes elsewhere

(Bloomberg; Sept. 26) - Germany wants to lock in contracts for liquefied natural gas imports — with a delivery obligation — an effort to deter profit-chasing traders from diverting shipments elsewhere as the nation boosts its commitment to the fuel. The government plans to include a delivery clause for at least 50% of the capacity at import terminals offered in an auction next month, the first in a series of similar events for its state-run terminals, said managing director Peter Röttgen of Deutsche Energy Terminal.

"We not only want to be fully booked, but actually receive gas," he said. The federally owned company wants to hold suppliers to their word: "It's clear there has to be a consequence for not delivering." The requirement highlights Germany's growing reliance on LNG and a potential source of friction between the government and suppliers.

The risk of delays and canceled shipments has risen due to the increasingly global nature of the LNG trade. Most shipments don't have a destination requirement, allowing traders to quickly fill gaps in the market, such as shifting supply between Asia and Europe for a better price.

'Dark vessel' traffic on the rise for Russian oil

(CNBC; Sept. 26) - Ships are faking their locations to engage in illicit activity — and rising numbers appear to be doing so to trade goods that are likely to be worth billions of dollars. So-called "dark vessels" shipping Russian oil in a suspected evasion of the G7′s $60-a-barrel price cap, tankers going under-the-radar in Venezuelan waters, and cargo ships allegedly smuggling grain from Ukraine are being uncovered by satellite technology that can identify when vessels report a false location.

Large ships must be fitted with automatic identification systems and broadcast their locations to prevent collisions, per International Maritime Organization rules. But some are switching off their location transponders or engaging in “spoofing,” reporting they are in one location but actually in another — maybe hundreds of miles away. Data from maritime technology company Windward showed a 12% rise in location manipulation among oil tankers and ships carrying dry cargo such as grain for the first half of 2023 compared to the same period last year, and an 82% increase from the first half of 2021.

According to Ami Daniel, co-founder and CEO of Windward, the illicit movement of Russian oil could be worth tens of billions of dollars. Over the past year, Windward’s technology identified more than 1,100 tankers associated with Russia that went dark by switching off or manipulating their AIS, a Windward spokesperson said.

Tajikistan wants to use hydropower to produce green hydrogen

(Reuters; Sept. 25) - Hydropower-rich Tajikistan wants to produce 1 million tonnes of green hydrogen by 2040 for use as a fuel at home and exports to neighboring Central Asian countries, its Minister of Energy and Water Resources Daler Juma told Reuters on Sept. 25. Juma, who is visiting Japan to attend a Tokyo energy transition event, said Tajikistan planned to have 10 gigawatts of renewable energy capacity by 2030, which could power hydrogen production plants.

"We are fully dependent on oil product imports ... and are developing a road map for producing green hydrogen," Juma told Reuters on the sidelines of the conference. Hydropower generates nearly all of the electricity in the Central Asian nation of Tajikistan, which imports the bulk of its oil product needs from Russia.

According to the International Energy Agency, Tajikistan's hydro potential is exploited at only around 4%, allowing tremendous growth opportunities. Tajikistan plans to produce 500,000 million tonnes of green hydrogen by 2030 and to double that figure by 2040 thanks to “affordable competitive electric power,” said Juma, with 75% of that potentially aimed for exports to Central Asian countries using fossil fuels.

Sasol drops plan to use gas at synthetic fuel plant; it’s too expensive

(Engineering News; Sept. 26) – South Africa’s Sasol has placed on hold its plans to use more natural gas at its Secunda synthetic fuel manufacturing plant in Mpumalanga. Speaking at an investor site visit on Sept. 22 at Secunda, Sasol environmental sustainability vice president Sarushen Pillay said the decision was made owing to changes in the economic attractiveness of the liquefied natural gas markets.

Initially, the company considered using imported liquefied natural gas to reduce its reliance on coal while maintaining plant production levels. In the company's 2021 decarbonization roadmap, Sasol stated that it believed that imported LNG was an attractive option for reducing its coal use. However, after evaluating the possibility of using LNG to replace some of its coal inputs, the company decided that commodity pricing had become too high following geopolitical events over the past few years.

Additionally, the capital estimate for the medium-gas pathway, which would include new reformers for the synthetic fuel plant, had increased due to high global inflation. This led to the decision to put the implementation of additional gas reforming capacity on hold. Pillay said the company would continue to revise the economics, and the gas-heated exchange project could be reconsidered if the market improves. However, at this time, Pillay confirmed that Sasol does not consider additional gas as a viable option.

Coal expected to stick around for decades in Asia

(Reuters; Sept. 27) - Asia's coal sector has gone from thinking it is in terminal decline as the world shifts to a net-zero carbon future to seeing itself as being a part of the energy mix for decades to come, while raking in profits. The bullish narrative was on full display at the industry's biggest gathering, the Coaltrans Asia conference held this week on the Indonesian resort island of Bali.

What has changed for the coal industry is that they no longer believe that renewable energies can be deployed fast enough, cheaply enough and at sufficient scale to push fossil fuels out of Asia's energy mix. "The reality is that coal demand will continue to increase," Septian Hario Seto, Indonesia's deputy of investment at its Coordinating Ministry for Maritime and Investment Affairs, told the conference. This was a common view, with delegates expressing skepticism over the pathways to net-zero emissions advocated by Western bodies such as the International Energy Agency.

While thermal coal does see some threat from natural gas, the view of virtually every market participant, from miners to traders to utilities and government officials, was that coal remains the cheaper and more secure alternative. To many Asian countries, it's simply too expensive to move rapidly to renewable energies, given the big investments needed to re-shape electricity grids to cope with variable generation from wind and solar, as well as put in place the generation capability to back up the renewable supplies, such as gas-fired peaking plants, pumped hydro and battery storage.