Oil and Gas News Briefs
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Expanded pipeline will divert cheap Canadian oil away from Midwest

(Wall Street Journal; Jan. 31) - Drivers in the Midwest may soon have to pay a bit more at the pump. The reason? Cheap Canadian oil will soon have a new set of buyers. For years, Canada's booming oil fields have had few choices but to funnel the country's thick crude oil through pipelines snaking through the Midwest and on to the Gulf Coast. That has pushed down prices paid by many U.S. refiners and, in turn, gas stations and airports from Minneapolis to Chicago to Detroit.

Those days are numbered. Canadian oil companies will soon have the option to ship crude through a long-delayed, 715-mile pipeline expansion to the Pacific Ocean. That will allow traders to sell more oil to the U.S. West Coast and to fast-growing Asian economies. The Trans Mountain expansion, which will nearly triple the capacity of an existing pipeline to 890,000 barrels a day, promises to give Canadian companies more pricing power and boost the country's position as a global energy powerhouse.

"This is a big deal that's been 10 years in coming," said Kevin Birn, an analyst with S&P Global Commodity Insights. Americans guzzled Canadian oil even as U.S. crude output ballooned in recent years. Imports from north of the border surpassed 4 million barrels a day some months last year, U.S. officials said, nearly two-thirds of total shipments into the U.S. Those supplies have come at a bargain, as the price of Canadian oil accounts for transport costs, differences in crude quality and a limited pool of buyers. Benchmark Canadian crude cost about $18 a barrel less than its U.S. counterpart on Jan. 30.

Canadian oil line builder trying to solve hard-rock drilling problem

(The Canadian Press; Feb. 1) - The company building the Trans Mountain pipeline expansion is still working to find a solution for its latest unexpected construction challenge in British Columbia. The crown corporation is currently removing the section of pipe it had been attempting to pull through the hole drilled for it in the Fraser Valley between Hope and Chilliwack. The company had been using horizontal directional drilling for that 1.5-mile section, but announced on Jan. 29 it had encountered problems.

On Jan. 31, a company spokesperson said the problems were related to an obstruction discovered while attempting to pull the pipe into the hole, and that it is now assessing options to remove it. The Canada Energy Regulator said it is aware of Trans Mountain's latest challenges and has inspection officers on site as part of standard compliance

activities. Horizontal directional drilling is used to install pipe under a body of water or in ecologically sensitive terrain when surface disturbances must be minimized.

The company has been racing against the clock to finish construction as it deals with a variety of difficulties related to hard rock and challenging terrain. The latest challenges are likely to push the in-service date back from the first quarter to the second quarter of this year. The project's costs have spiraled through the course of construction from an original estimate of C$5.4 billion to the most recent estimate of C$30.9 billion. Trans Mountain is Canada's only oil line to the West Coast and its expansion will increase capacity to 890,000 barrels per day from 300,000 currently.

Canada wants to sell overbudget oil pipeline after it is operational

(Bloomberg; Feb. 2) – Prime Minister Justin Trudeau has promised one of the largest government-led asset sales in Canadian history by selling the expanded Trans Mountain pipeline, a huge conduit that moves crude from Alberta to a west coast export terminal. But the government faces mounting challenges in unloading it — including high interest rates, a fight over costs with oil companies, and a looming election.

Trudeau has pledged to use the pipeline to generate wealth for Canada's Indigenous people, and the government plans to essentially gift a stake in it to over 100 groups. It's a complex process, fraught with political pitfalls, and it appears to have stalled in recent months, according to people familiar with the matter. "In the next few months, oil's going to be flowing through that, and every day that there's no deal in place, every First Nation is losing money," said Chief Tony Alexis of the Alexis Nakota Sioux Nation, one of many Indigenous groups waiting for details on how to acquire an equity position in the project.

The government intends to auction the line once it's fully operational. Buyers could include pipeline operators, private equity or infrastructure funds — maybe Indigenous groups would be partners. The line may be worth as much as C$28 billion (US$20.9 billion), according to one estimate. The decision to buy the line from Kinder Morgan in 2018 was one of the most controversial moves of Trudeau's eight years in power.

He still is criticized by environmentalists for going ahead with plans to nearly triple the line's capacity to almost 900,000 barrels a day. Trudeau has always argued the project is in the national interest to reduce Canada's near-total reliance on the U.S. to buy its oil. At more than C$30 billion, the Trans Mountain expansion is tens of billions of dollars over budget. But it's almost complete and is scheduled to begin pumping within months,

Texas set records in 2023 for oil and gas production, taxes paid

(The Texan, Jan. 31) - Texas' oil and gas industry continued to one-up itself in 2023, setting new records for production, exports, taxes paid and more, according to a new report. The Texas Oil and Gas Association's 2023 annual report showed the state's industry produced 5.5 million barrels per day of crude and 31.8 billion cubic feet per day of natural gas — both the highest in the U.S. If it were its own country, Texas would place fourth among oil-producing nations behind the U.S., Russia and Saudi Arabia.

"American energy leadership starts in Texas and our nation, our economy and our world are better because of the unparalleled stewardship of Texas oil and gas companies," said Todd Staples, association president. According to industry group, the industry paid over $9 billion in oil and gas severance taxes to the state in 2023 — revenues that fund the state's savings account and highway fund. Overall, oil and gas companies paid $26.3 billion in state and local taxes last year, edging out 2022's previous record high.

The industry continues its strong rebound from the global turmoil wrought by the COVID-19 pandemic, during which West Texas Intermediate plunged to negative levels. In 2022, the industry accounted for 6% of the state's gross domestic product. The industry employs over 480,000 in Texas, with an average annual wage of $124,000.

Exxon, Chevron both plan large increase in Permian oil production

(Bloomberg; Feb. 2) - ExxonMobil and Chevron plan to aggressively ramp up production from the Permian Basin this year in what could be an early sign that U.S. oil output may surpass expectations once again, like it did in 2023. Chevron is targeting 10% growth this year, more than twice the pace of publicly traded independent oil companies, setting it on course to pump 1 million barrels a day from the region in 2025.

Exxon sees production growth of nearly 7% and is expected to double its overall output once it completes the $60 billion of Pioneer Natural Resources by mid-year. "We are in the best parts of the Permian," Chevron Chief Financial Officer Pierre Breber said during an interview. "Our growth is higher likely than the basin average but it is representative of our activity level and the activity level of our partners."

Exxon and Chevron's Permian development plans are closely watched as they are already among the basin's biggest producers, meaning their growth rates are coming on top of already high output levels, adding to global supplies. Exxon CEO Darren Woods said Feb. 2 the company plans to treat its massive Permian operation like a factory by building a robust inventory of drilled wells but holding off fracking — a practice known as drilled-but-uncompleted oil and gas wells, or DUCs. "The trick is to get that inventory level right. You don't want a bunch of capital sitting there that isn't earning its return."

Rising production will limit geopolitical risk premium for oil prices

(Reuters; Jan. 31) - Record oil production in the West and slow economic growth will keep a lid on oil prices in 2024 and limit any geopolitical risk premium resulting from escalating Middle East tensions, a Reuters poll showed on Jan. 31. A survey of 38 economists and analysts forecast Brent crude would average $81.44 in 2024, down from a $82.56 consensus in December. U.S. West Texas Intermediate price forecasts for 2024 were also lowered to $77.26, from $78.84 last month.

"The U.S. has ramped up production and exports, which has contributed to price stability, even in the face of rising geopolitical risks, and the global market has moved back into surplus," Matthew Sherwood, lead commodities analyst at EIU, said. Escalating tensions in the Middle East, including attacks on shipping in the Red Sea has fueled supply concerns and lifted Brent prices nearly 7% so far this year.

However, most of the analysts polled noted the impact from geopolitical tensions on oil prices to be minimal, as production remains unaffected. "We are expecting the market will continue to discount the risks — unless there is a material impact on the flow of oil — such as disruption in the Arabian/Persian Gulf," said John Paisie, president of Stratas Advisors. The International Energy Agency expects world oil supply to rise to a new high in 2024, fueled by record-setting output from the U.S., Brazil, Guyana and Canada.

Disruptions make global oil market a little more local

(Bloomberg; Feb. 3) - The global oil market is looking increasingly local as militant attacks in the Red Sea and surging freight rates make supplies from closer to home more attractive. A slump in tanker traffic through the Suez Canal is spurring the beginnings of a split, with one trading region centered around the Atlantic Basin and including the North Sea and the Mediterranean, and another encompassing the Persian Gulf, the Indian Ocean and East Asia.

There’s still crude moving between these areas — via the longer and costlier journey around the southern tip of Africa — but recent buying patterns point to disconnection. Across Europe, some refiners skipped purchases of Iraqi Basrah crude last month, according to traders, while buyers from the continent are snapping up cargoes from the North Sea and Guyana. in Asia, a jump in demand for Abu Dhabi’s crude led to a spike in spot prices in mid-January and flows from Kazakhstan to Asia are down sharply.

The fragmentation will not be permanent, but for now it’s making it tougher for import-dependent nations like India and South Korea to diversify their sources of supply. For refiners, it limits their flexibility to respond to changing market dynamics and could eat into margins. “The pivot toward logistically easier cargoes makes commercial sense, and that will be the case for as long as the Red Sea disruptions keep freight rates

elevated," said Viktor Katona, lead crude analyst at data analytics firm Kpler. "It's a tough balancing act choosing between security of supply and maximizing profits."

Saudi decision to cancel oil capacity expansion based on supply

(Reuters; Jan. 31) - Saudi Arabia's surprise reversal of its oil expansion ambitions was at least six months in the making, said an industry source, after Riyadh concluded its vast spare capacity was enough to supply markets during crises and that further investments in new fields would make no economic sense. The Saudi energy ministry ordered oil giant Aramco on Jan. 30 to halt plans to boost its maximum sustainable capacity to 13 million barrels per day, returning to the previous 12 million target.

The kingdom is the world's largest oil exporter and is pumping around 9 million barrels per day, well below capacity after several output cuts coordinated with the Organization of the Petroleum Exporting Countries and its allies. With around 3 million barrels per day of Saudi capacity to spare, an assessment was made that much of that was not being monetized and there is no need for further expansion, the industry source said.

"I think price management is the priority for 2024 and 2025," said a second person familiar with the matter. "This is a deferral and will likely resume at a later date," the person said. "This has no bearing on the (Saudi) view of long-term demand." The decision came from the top, both sources said. "We think the decision is likely primarily a function of a more resilient supply outlook," indicating that additional oil is not needed, "rather than a change in view on (long-term) demand," Barclays said in a note Jan. 31.

Japan's LNG imports in January lowest since 2009

(Bloomberg; Feb. 2) - Japan's liquefied natural gas imports for January fell to the lowest level for that month in 15 years, as nuclear reactor restarts, higher renewables output and energy-savings efforts curb fossil fuel needs. Deliveries fell to just shy of 6 million tonnes last month, according to ship-tracking data compiled by Bloomberg. That's the lowest volume for the month since 2009.

Japan's LNG needs surged after the 2011 Fukushima disaster shut down the nation's 54 nuclear reactors, forcing the country to depend more on gas. LNG demand has since diminished as some of the idled reactors restarted, while the government pushed for households and businesses to conserve energy. LNG inventories were high leading up to January, prompting Japan's importers to resell shipments that would have otherwise been delivered for the month. Meanwhile, spot prices for the fuel plummeted this winter due in part to weaker demand across North Asia, home to the world's top importers.

Pause in new U.S. LNG export approvals may not really matter

(Wall Street Journal; Feb. 1) - The Biden administration's pause on liquefied natural gas export approvals is seen as a win by environmental groups and domestic energy users and a loss for the energy industry. The reality is a lot murkier. Even without the decision, there was likely going to be a lull in the build-out of export plants. The U.S. has already granted export authorizations to projects totaling 48.6 billion cubic feet a day of capacity. Of those, almost half had not started construction as of the end of 2023, likely signaling they hadn't signed up enough customers to reach final investment decisions.

Of course, there could be all sorts of reasons why projects don't cross the finish line. The management team might be bad at negotiating with LNG buyers, for example. But the size of this overhang suggests that gas buyers around the world aren't clamoring to secure supply in the medium term. Qatar — another top exporter — also has been slow to sign contracts, according to an August report from S&P Global Commodity Insights.

Wood Mackenzie estimates an 18- to 24-month delay in new U.S. LNG approvals could be absorbed by the global market given how many projects are under construction in the U.S. The Energy Department itself said last year that the authorization overhang "may serve to discourage or delay potential new entrants to the U.S. export market — including those that seek to use newer technology and to adopt better environmental practices." The other point is that other gas-producing countries will step in as long as there is demand, possibly making meaningless any pause in new U.S. approvals.

No near-term impact to markets from U.S. LNG pause

(Financial Times; London; Feb. 1) - What will the actual impact be of the pause in approval of new U.S. LNG export projects? In the near term, not much. The country's seven operating terminals can produce as much as 87 million tonnes of LNG a year — enough to satisfy the combined gas needs of Germany and France. The five more projects already approved and under construction will add an additional 63 million tonnes of capacity by 2028. If anything, the pause is a boon for the incumbents, shutting the door behind them, at least for a little while.

It is the 17 projects awaiting approval that will feel an immediate impact. But their possible impact on supplies was not going to be felt until the end of the decade — if those projects come online at all. The problem for would-be exporters is that if their projects are put on hold indefinitely, the buyers they have signed up will start to look elsewhere. And without buyers, getting financing to reach the critical final investment decision becomes an issue.

"Legally it's the contracts that are the issue," said Jason Bennett, a leading lawyer at law firm Baker Botts. "If it goes on for two years it'll be a real problem. If it goes on for six months, we'll see." How long will it last is the critical question — and the answer is at

best unclear. The White House was exceedingly vague in its announcement as to how long it would take to carry out the study of LNG exports and the effect on climate change. But no one is expecting a return to licensing ahead of the November election.

U.S. LNG moratorium creates uncertainty if it extends long term

(S&P Global; Feb. 1) - The White House pause on granting LNG export licenses to new projects stands to have minimal short-term effects on exports from the U.S., already the world's top supplier of the fuel with an export capacity that is poised to double over the next five years. But sector experts gauging the effects of the permitting pause — widely viewed as a political move ahead of the November presidential election — say it creates new uncertainty about the longer-term global market share of U.S. LNG.

Trade partners will likely reassess associated supply risks, while long-term contracts tied to a series of projects facing new regulatory uncertainty will likely stall, analysts said. "The U.S. is definitely a reluctant energy superpower," Leslie Palti-Guzman, senior associate at the Center for Strategic and International Studies, said during a Jan. 31 online discussion of the policy development. "It's a political move with no impact on trade. Short-term, no impact. The problem is going to be later on impacts on investments and geopolitics that won't be all beneficial."

U.S. LNG capacity doubling from current levels of about 84 million tonnes per year reflects U.S. volumes rising to about one-third of global LNG supplies by 2030, according to S&P Global Commodity Insights analysts. But the recent moratorium has heightened risks to the U.S. export outlook. "We estimate that the DOE pause on … approvals puts nearly 30 million tonnes per year of probable U.S. and Mexico LNG export capacity at risk," Ross Wyeno, director for LNG analytics at S&P Global, said.

Expansion of LNG plant in Georgia caught up in approvals pause

(Savannah Morning News; Georgia; Feb. 2) - Environmental groups and clean-energy advocates are lining up in opposition to the proposed expansion of natural gas exports from a Savannah, Georgia, facility that also is one of the area’s largest producers of climate-impacting pollution. Southern LNG, situated on Elba Island in a bend of the Savannah River, is one of just two East Coast exporters of liquefied natural gas. The facility is authorized by the U.S. Department of Energy to ship gas to foreign markets.

Last year, Southern LNG asked federal regulators for approval to significantly increase exports to non-free-trade countries, which comprise the largest market for U.S. LNG. But on Jan. 26, President Joe Biden announced that the Department of Energy would suspend reviews of such requests while it reassessed the environmental and economic impacts of natural gas, effectively putting Southern LNG’s request on hold indefinitely.

Republican U.S. Rep. Buddy Carter, whose coastal district includes the Southern LNG facility, argued that the pause “threatens our nation’s global leadership” and plays into the hands of Russian President Vladimir Putin by potentially increasing demand for that country’s natural gas. Alys Campaigne, climate initiative director for the Southern Environmental Law Center, has a different view: “Rapid expansion of LNG exports like we’ve seen at the Elba terminal accelerate climate risk, make prices for U.S. customers more volatile and strain resources needed to make the clean energy transition.”

White House decision could ‘erode confidence’ in U.S. LNG

(Australia Financial Review; Feb. 4) - Top oil industry executives have hit out at President Joe Biden’s decision to pause approvals for new liquefied natural gas export terminals, with Shell’s CEO warning it will “erode confidence” in an industry that has become a pillar of the global energy system. The energy major, the biggest shipper of LNG after state-owned QatarEnergy, has bet heavily on demand for the gas, which it expects to continue to grow even if consumption of other fossil fuels starts to decline.

“I don’t think the recent announcement by the administration necessarily impacts, in the short or medium term, the supply of LNG, but I do think it erodes confidence in the longer term,” Shell CEO Wael Sawan said in an interview. In recent months, Shell has also become embroiled in a dispute with U.S.-based Venture Global LNG, alleging the company is refusing to honor a multibillion-dollar supply contract from its Louisiana export terminal, keeping the gas for itself to sell. Alongside BP, Shell launched arbitration proceedings against the company in September.

“You add (the Biden decision) to the behavior of Venture Global in not honoring the contracts with their foundation buyers,” Sawan said. “All of that I think starts to just raise more questions on the stability and security of LNG from the U.S.” Kathryn Mikells, chief financial officer of ExxonMobil, also criticized the decision, saying it could damage efforts to wean countries off coal. “It means less U.S. natural gas is available to replace coal around the world — that’s clearly a bad thing,” she told the Financial Times.

Europe likely OK on gas despite pause to new U.S. LNG approvals

(Reuters; Feb. 2) - Europe will have enough gas for at least the next 10 years despite a move by the U.S. administration to pause approvals on new liquefied natural gas plants, European Union energy officials and analysts said, dismissing industry's warnings. Gas companies — and lobby groups that learned of the move ahead of the decision and unsuccessfully opposed it, according to documents seen by Reuters — warned it would compromise global energy security and efforts to reduce carbon dioxide emissions.

The U.S. has become the biggest exporter of LNG to Europe, as EU countries have raced to replace Russian fuel following Moscow's invasion of Ukraine in 2022. Over 60% of U.S. LNG exports went to Europe in the past two years. A European Commission spokesperson told Reuters the U.S. decision "will not have any short-to-medium term impacts" on the EU's security of gas supply.

Europe has survived two winters without Russian pipeline gas, helped by lower heating demand due to mild weather and as high prices forced some industries to shut. Even with new projects paused, the U.S. is set to significantly expand its LNG capacity. U.S. LNG capacity will almost double to about 24.5 billion cubic feet per day by the end of 2028 if all of the approved projects are built. Longer term, the EU's gas consumption is expected to fall as the bloc shifts away from fossil fuels to meet climate-change goals — so the region may not need the additional U.S. LNG.

FERC unaffected by Energy Department review of LNG exports

(Energy Wire; Feb. 2) - Federal energy regulators are poised to carry out reviews of natural gas terminals as usual following the Biden administration's decision to pause Department of Energy export approvals, observers said. Environmental advocates, federal policy watchers and a major liquefied natural gas company said they don't believe the department's freeze on pending and future applications for LNG exports will impede the Federal Energy Regulatory Commission and its role in the energy sector.

“FERC is an independent agency that is supposed to rise above politics,” said Neil Chatterjee, a Republican who chaired FERC during the Trump administration. FERC authorizes the siting and construction of LNG import and export facilities, while the Department of Energy approves export licenses so projects can ship liquefied gas overseas to countries that don't have free-trade agreements with the United States.

Four LNG export projects have pending applications to FERC and two others have been prefiled, according to FERC's website. It remains to be seen how quickly FERC acts on the proposals. In its role, the Energy Department said its pause applies to “all current and future pending applications” until the agency's review is done. The analysis, which department officials said could take months, will include “market, economic, national security” and environmental considerations, according to a department news release.

India close to signing long-term, large-volume LNG deal with Qatar

(S&P Global; Feb. 2) - Market participants widely expect India's key gas companies to lock in several major long-term LNG deals, which have been in the final stages of negotiations, during India Energy Week to be held in the week starting Feb. 5. The main deal that is anticipated is an extension of long-term LNG contracts between India's

largest LNG importer Petronet LNG and QatarEnergy totaling around 8.5 million tonnes per year that are set to expire in 2028.

The specifics around the renewal of the Petronet-Qatar LNG agreement have been a closely guarded secret and it is unclear whether the deal will be renewed with the same pricing, duration and volume as the original agreement, and last-minute changes are frequent. However, the large volume would represent one of the largest signed by Qatar with a single state-owned Asian gas importer, and markets are keenly eyeing the terms of the deal as they would set an industry benchmark for oil-linked long-term contracts.

For India, an extension of LNG supply contracts with Qatar will highlight its long-term LNG procurement strategy as the industry has changed significantly since the initial deals were signed. QatarEnergy has three existing contracts with Petronet LNG expiring in 2028. LNG markets are closely watching whether India will buy additional volume beyond the 8.5 million tonnes per year due for renewal, how the deals will be structured, and whether the deal will extend beyond 2050, as recent Qatari deals with Chinese and European buyers have been as long as 27 years.

Wind power industry seeks government support due to higher costs

(Bloomberg; Jan. 31) - For the fossil fuel industry, every crisis has contained danger and opportunity. It's a trick the renewables business has struggled to master. The art behind this history of survival lies in the way companies have used their moments of weakness to bend governments to their will. European Union capitals more than doubled fossil fuel subsidies to €123 billion ($133 billion) in 2022 to offset cost increases following Russia's invasion of Ukraine. The U.S. government in 2022 promised to buy crude to refill reserves whenever prices dip below a range of $67 to $72 per barrel, encouraging domestic production by creating a price floor that other energy producers would kill for.

The wind industry still appears to be failing at this game, but it is learning. In September, a U.K. auction for offshore licenses closed without any bids after developers warned the government's ceiling prices were too low, given the rising costs of materials and finance. Two months later, Orsted took a $4 billion impairment as it canceled two projects off the New Jersey coast, citing the same factors. Siemens Energy had to seek a €15 billion support package, half of it from the German government, after losses from its wind unit.

In retrospect, the setbacks appear to have nurtured the seeds of the wind industry's renewal. The U.K. in November lifted the price ceiling on offshore power by 66%. A month later, Orsted announced it would go ahead with a North Sea wind project, taking advantage of the new rules. The 2.9-gigawatt farm was widely predicted to have been on the verge of cancellation. But now, the offshore market seems to be resetting at prices that better reflect developers' costs — exactly what the industry was lobbying for.