

Oil and Gas News Briefs

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OPEC+ extends production cutbacks to end of June

(Bloomberg; March 3) - OPEC+ has extended its oil supply cutbacks to the middle of the year in a bid to avert a global surplus and shore up prices. The curbs — which on paper total roughly 2 million barrels a day — will remain in place until the end of June, according to statements March 3 from members such as Saudi Arabia, which accounts for half of the pledged reduction. Russia promised to strengthen its role in the effort.

Traders and analysts had widely expected the extension, seeing it as necessary to offset a seasonal lull in world fuel consumption and soaring production from several of OPEC+'s rivals, most notably U.S. shale. An uncertain economic outlook in China is adding to the caution. Ample supplies have anchored international oil prices near \$80 a barrel this year, even as conflict in the Middle East disrupts regional shipping. While that offers some relief for consumers after years of rampant inflation, prices may be a little low for many in the Organization of the Petroleum Exporting Countries and its partners.

Saudi Arabia needs a crude above \$90 a barrel as it spends billions on an economic transformation, according to Fitch Ratings. Its largest partner in the OPEC+ alliance, Russia, seeks more revenue to fight its war on Ukraine. Meanwhile, Russia and others in the group haven't delivered fully on earlier commitments. Moscow only recently fully implemented the production cuts it promised almost a year ago. Iraq and Kazakhstan collectively pumped several hundred thousand barrels a day above their quotas in January but promised to improve compliance and compensate for any overproduction.

OPEC+ may want to ease production cuts to deny U.S. shale

(Bloomberg; Feb. 28) - Over the next few days, OPEC+ countries will need to decide whether to extend their "voluntary" oil output cuts into the second quarter. The market anticipates a full rollover. Instead, I believe the cartel has a chance to add a bit of extra supply, taking some short-term pain for a long-term gain. The group of countries is poised to make a series of individual, simultaneous announcements in the coming days.

Behind closed doors, OPEC+ ministers are negotiating. Officials tell me that informal exchanges of views are ongoing. Inside the cartel, I hear there's a strong view that "market conditions" don't warrant more barrels right now. Oil prices, even if stronger than in late 2023, aren't yet high enough to justify pumping more, some say. Moreover, refinery maintenance season is around the corner, reducing the need for oil.

Yet there's also a minority view inside OPEC+ that advocates easing production cuts gradually in the second quarter. Those who support pumping more calculate both that there's limited risk of triggering a price crash and that it makes strategic sense for the cartel. An upbeat view of the oil market favors increased output. Brent crude is hovering just under \$85 a barrel. The cost of crude for immediate delivery trades at a premium to forward barrels, an indication of scarcity. Refinery margins, a measure of underlying consumption for gasoline and other petroleum products, have recovered significantly.

Strategically, pumping more oil has another benefit: By putting a lid on prices, OPEC+ can slow the expansion of the U.S. shale industry. The longer OPEC+ waits to unwind its production cuts, the longer the higher prices will subsidize America's shale.

Higher government spending drives Iraq's break-even oil price to \$90

(S&P Global; March 3) - Iraq's break-even oil price is expected to exceed \$90 per barrel this year because of higher government spending, the International Monetary Fund said March 3 after meeting with Iraqi authorities to review the country's economic policies. The Iraqi government's fiscal deficit may reach 7.6% in 2024 and keep widening as "oil prices are projected to gradually decline over the medium term," the IMF said. Public debt may almost double from 44% of GDP in 2023 to 86% by 2029, it said.

Current oil prices are just below the IMF's projected Iraq breakeven, with Platts, a part of S&P Global Commodity Insights, assessing Dated Brent at \$87.50 per barrel on March 1. Crude prices have recently been supported by continuing geopolitical risks in the Middle East, though uncertainty over the global economy and the risks of recessions in major consuming countries have weighed on market sentiment.

Fiscal breakevens represent the price required by nations that rely on oil revenues for the bulk of their earnings to balance planned government spending with income, without tapping into debt markets or drawing on reserve funds. At times, they can serve as a guide for how OPEC countries plan to manage their production to influence oil prices. Iraq is the second-largest crude producer in OPEC, pumping 4.27 million barrels per day in January, well above its quota under the OPEC+ agreement of 4 million barrels.

U.S. demand for oil in 2023 highest since 2019

(Bloomberg; Feb. 29) - Oil demand in the U.S. surged to a four-year high in 2023 and is expected to hold near that level through 2024. Domestic fuel consumption reached 20.23 million barrels a day last year, the highest level since 2019, according to Energy Information Administration data released Feb. 29. U.S. demand should continue to strengthen this year to an average 20.39 million barrels a day, just below 2019 levels, said the agency.

Forecasts for oil use are being closely watched by market participants, with global balances teetering into oversupply. The EIA has in recent years come under fire for underestimating U.S. demand in its weekly reports, only to revise them markedly higher in the monthly data. In its Feb. 29 report, the EIA raised its estimate for December jet fuel demand by 5%. The agency also revised higher its figures for year-end gasoline and diesel consumption.

U.S. oil production set record in December; full year was double 2012

(Reuters; March 1) - U.S. production of oil and gas set new seasonal records in December, capping off an unprecedented year, according to data from the U.S. Energy Information Administration on Feb. 29. Production continued to climb even as prices slumped from the very high levels seen in mid-2022 after Russia's invasion of Ukraine.

On the oil side, total production of crude and condensates increased to 413 million barrels in December from 376 million in the final month of 2022. Production was running at 13.3 million barrels per day in December, an increase of 1.2 million (10%) from a year earlier. The prior-year comparison was flattered by the extreme cold which shut down some wells in December 2022. For the year as a whole, output increased to 4.721 billion barrels in 2023, up from 4.347 billion in 2022, and has doubled since 2012.

Inflation-adjusted front-month U.S. crude futures averaged \$72 per barrel in December, down from a recent high of \$121 in June 2022. Oil-directed drilling has slowed in line with lower prices. The number of rigs drilling for oil averaged 501 in December, down from 623 in December 2022, according to oil field services company Baker Hughes. In the short term, the U.S. oil industry has become adept at producing more oil, at lower prices, with fewer drilling crews.

Exxon and Chevron battle over profitable Guyana oil development

(Bloomberg; Feb. 29) - It's rare for disputes between any of the world's supermajor oil companies to spill out in public. It's even rarer that one could end up costing \$53 billion. But the oil riches beneath Guyana's coastal waters are so valuable that ExxonMobil is willing to battle over legal terms of a contract signed a decade ago to keep the prize mostly to itself — and away from Chevron. The stakes in the fight — which potentially could scuttle Chevron's \$53 billion takeover of Hess Corp. — couldn't be much higher.

Exxon said it's considering exercising rights to acquire the Hess stake in a giant offshore oil development in Guyana — the key asset that lured Chevron into the Hess acquisition. A win for Exxon, which made the Guyana discovery in 2015 and owns 45% of the project, would enhance the stock-market premium it derives from being the sole Western supermajor with a share in the world's fastest-growing oil development. Victory

for Chevron would see it gain Hess' 30% stake in Exxon's marquee project, narrow the valuation gap with its larger rival and provide low-cost production growth for years.

The Guyana project is unique for its size, rapid growth and profitability. It's a particularly rare combination because most oil majors have shied away from megaprojects due to concerns about the environment, peak oil demand and investors' preference for buybacks and dividends over production growth. The primary production area, Stabroek, holds 11 billion barrels, and Exxon's speedy development plan means production will double to 1.2 million barrels a day by 2027.

Extracting Guyana's oil is profitable at prices less than \$35 a barrel, in part because of a favorable production-sharing contract first signed with the government in 1999, when the basin was considered high-risk. It's no surprise then that Exxon wants to preserve the value of what an executive once described as its "fairy tale" oil discovery.

Alberta oil and gas companies owe \$250 million unpaid property taxes

(Calgary Herald; Feb. 29) - Alberta oil and gas companies owe rural municipalities more than C\$250 million in unpaid property taxes, prompting a call for changes to how that growing tax bill is collected. Rural Municipalities of Alberta (RMA) say energy companies are taking advantage of what it calls the Alberta Energy Regulator's (AER) "hands-off approach to regulation," which it says allows certain companies to avoid paying property taxes.

The AER says it's made recent changes to address the issue, and that municipalities are responsible for collecting the taxes. Oil and gas companies' tax bill grew by \$43 million in 2023, according to a recent survey of RMA members. That's in addition to the \$50 million in unpaid taxes reported the previous year, amounting to \$251.8 million in unpaid property taxes to rural communities. "Companies continue to profit from Alberta's resources while ignoring their community obligations and funneling profits to executives and shareholders," Paul McLaughlin, president of the RMA, said in a statement.

In a statement, the AER said it introduced new rules last May that say applicants for a new well license or transfer cannot owe more than \$20,000 in municipal taxes — if they owe more than that limit, companies must show they have paid their debt or have an acceptable payment plan before the AER considers a license or transfer. Municipalities are responsible for collection and enforcement of municipal taxes, the AER said, noting it's working with municipalities to identify energy companies that owe property taxes.

Legislation would block China from buying oil from U.S. reserves

(Bloomberg; March 3) - China would be barred from buying oil from the U.S. emergency stockpiles under a provision included in must-pass government funding legislation unveiled March 3. Republican critics have sought to bar the sale of oil from the Strategic Petroleum Reserve to China, after nearly 1 million barrels released from the reserve in 2022 were sold to Unipet America, a Texas-based subsidiary of China-owned Sinopec.

The White House has said the Energy Department is required by law to sell oil from the Strategic Petroleum Reserve in a competitive auction to the highest bidder, regardless of whether the bidder is a foreign company. The Trump administration sold oil to PetroChina International, a subsidiary of Chinese state oil company PetroChina in 2017.

The Strategic Petroleum Reserve, created in the aftermath of the Arab oil embargo in the 1970s, currently stands at 360 million barrels, close to a 40-year-low, following the Biden administration's historic release of 180 million barrels in 2022 to tame high oil gas prices in the aftermath of Russia's invasion of Ukraine. The administration has been slowly trying to refill it — purchasing some 23 million barrels since last year.

Large expansion of LNG exports will make Qatar even richer

(Bloomberg; March 3) - With a two-phase mega-expansion underway and an enormous additional build-out on the horizon, the small Gulf nation of Qatar is setting itself up to control about a quarter of the world's liquefied natural gas trade by the end of the decade. Energy Minister Saad Al-Kaabi unveiled Feb. 25 plans to boost capacity another 13% on top of its previously announced projects, together lifting the nation's output of LNG from 77 million tonnes per year today to 142 million tonnes by 2030.

That puts Qatar on track to produce the equivalent of about 7.25 million barrels of oil per day. Most of that will be exported, essentially matching Saudi Arabia's energy exports. And it might not stop there. "We are going to keep appraising. If there is more that's available to produce, we will be producing more," Al-Kaabi said at a press conference broadcasting the news. The only thing that would stop Qatar from expanding further is if it no longer sees the demand for it. "We believe there's a huge market available."

As Qatar grows its LNG exports, the country that already has one of the highest GDPs per capita will rake in even more cash. All the new supply will increase annual revenue by about \$31 billion, according to calculations based on recent long-term LNG contracts that assume oil at around \$80 a barrel. The expansion will help make one of the richest nations much richer. "We have no other revenue really," Al-Kaabi said. "We need to make sure that our kids and their kids are in better shape hopefully than people today."

Qatar's plans will cement its standing for decades to come. Countries moving away from oil or coal but struggling with renewables are seeking alternatives, though Qatar's

long-term contracts will lock them into LNG well past 2050. About 20 countries have already inked long-term deals to buy gas from state-owned QatarEnergy, with more customers likely to emerge. Even if Qatar floods the market and prices come down, the well-funded, low-cost company can afford to sweat it out longer than many of its rivals.

Europe has so much gas it may need to store some in Ukraine

(Bloomberg; March 1) - Europe is set to end the heating season with so much natural gas that the idea of storing more fuel in Ukraine to avoid a price crash is becoming attractive, despite the security risks of such a move. The region is heading into March with storage facilities over 62% full — a record for the time of the year — according to data from Gas Infrastructure Europe. The continent is nearing the end of what has been an exceptionally mild winter, which has weighed on fuel needs.

“European storage is at risk of hitting tank tops before the beginning of the heating season,” analysts at Energy Aspects wrote in a note this week. “As such, European traders must make use of floating and Ukrainian storage. Lower summer prices relative to the winter contract will support the economics of both.” Floating storage — keeping LNG on vessels for longer before unloading — is typically used when traders anticipate being able to sell it at higher prices later or when underground storage is full.

Ukraine is offering traders outside of the country to book as much as 350 billion cubic feet of its natural gas storage capacity this year, according to state-run oil and gas firm NJSC Naftogaz Ukrainy. The volume that can be earmarked for foreign companies comprises about a third of the nation’s total capacity and is on par with last year’s level. Long one of the key links in gas trade with Europe, Ukraine has more storage capacity than any other country on the continent, west of Russia.

Lenders to Mozambique LNG project assess restart of work

(Bloomberg; March 1) - Lenders to TotalEnergies’ Mozambique LNG project are weighing the release of billions of dollars in funding as the company plans to resume construction three years after work was halted by Islamist insurgent attacks. The onshore facility designed to export the southern African nation’s major gas discoveries attracted the biggest project financing yet seen in Africa. That was before Islamic State-linked militant attacks near the site in 2021 prompted Total to evacuate its personnel.

The U.S. Export-Import Bank, which committed the biggest share of \$4.7 billion in financing — and other lenders that comprise a total of about \$15 billion in debt — are conducting assessments on reactivating the funding, they said. TotalEnergies Chief Executive Officer Patrick Pouyanne said last month that the company has made

progress with suppliers and contractors on achieving a mid-year restart. He'd previously targeted the end of 2023.

"Exim continues to work with its financing partners and borrowers to conduct due diligence for the Mozambique LNG project," the U.S. Eximbank said in a response to questions. The U.S. Eximbank's loan to the Mozambique project was initially provided in 2020, during the administration of former President Donald Trump. Mozambican Finance Minister Max Tonela had in October called on the export-credit agencies involved to re-commit to the financing by the end of last year.

China's LNG imports expected to grow this year, but still below 2021

(S&P Global; Feb. 29) - China's liquefied natural gas imports are expected to grow by 8.1% year on year to 77.11 million tonnes in 2024, according to state-owned CNPC's Economics & Technology Research Institute data released Feb. 28. In 2023, China imported 71.32 million tonnes, up 11.7% year on year. Despite the expected increase this year, China's LNG imports in 2024 may still come in below pre-Ukraine crisis levels, when China imported 78.8 million tonnes in 2021, according to customs data.

The research institute expects the volume of China's new long-term LNG contracts that start deliveries in 2024 at around 11.46 million tonnes per year, almost double the start of new contracts in 2023. China is expected to add a record 60 million tonnes per year of new LNG receiving capacity in 2024, raising its total receiving capacity to 176 million tonnes per year, according to the institute. It's normal for countries to maintain receiving capacity far in excess of actual import levels.

Overall, China's pipeline gas imports are expected to rise 8.2% year on year to almost 2.6 trillion cubic feet of gas, and its total natural gas imports (including both piped gas and LNG) are expected to see a year-on-year increase of 8.2% to almost 6.3 tcf in 2024. China's own natural gas production is expected to reach almost 8.7 tcf in 2024, up 4.5% on the year. Meanwhile, China's gas demand is expected to grow 6.1% to more than 14.5 tcf in 2024, the research agency said, with LNG imports covering about 25%.

Report says emissions from LNG chain could be comparable to coal

(Bloomberg; Feb. 29) - When the Biden administration paused approval of new LNG export licenses in January, the decision was driven by a recognition that the climate impact from the fossil fuel needs to be reassessed. The fight over just how much LNG contributes to global warming was rekindled in part by a study with explosive findings. Compiled by Robert Warren Howarth, a professor at Cornell University, the analysis uses leak and emissions data from an array of sources. It finds that total greenhouse gas emissions from U.S. LNG in the best-case scenario are comparable to coal.

In the worst case, emissions could be more than two-fold greater. Understanding how much of the potent greenhouse gas escapes from the giant intercontinental network of wells, pipelines and ships is now one of the central questions of the energy transition and an emerging climate battleground. Despite years of research, many scientists and the Biden administration believe that question hasn't been sufficiently answered.

The argument that LNG, which generates about half the carbon dioxide of coal when combusted, is relatively less damaging to the climate hinges on an important caveat. To have a lower impact than coal, only a minuscule amount of methane — the primary component of fossil gas — can leak as it moves through global supply chains that begin at wellheads and span thousands of miles across oceans, to furnaces and power plants.

Howarth's study "clearly was a factor in the Biden administration's decision to pause making the required determinations required for approval of new LNG export projects and launching a U.S. Department of Energy study of the climate impact of LNG exports," said Steven Hamburg, chief scientist at the Environmental Defense Fund who has served as a lead author for the Intergovernmental Panel on Climate Change.

Oil and gas companies invest in geothermal energy

(Wall Street Journal; Feb. 29) – Oil and gas companies are accelerating investments in geothermal energy, betting the technologies that fueled the shale revolution can turn the budding industry into a large producer of clean power. Chevron, BP and Devon Energy are part of a group of fossil fuel companies investing hundreds of millions of dollars in geothermal start-ups and projects, many of which are using the technology employed by frackers, but instead of searching for oil and gas, they are looking for underground heat.

The heat that the drillers find underground can be used to generate a steady, round-the-clock supply of carbon-free electricity, which is coveted by tech companies for their power-hungry data centers. Finding pockets of underground heat is relatively easy in places with lots of geothermal activity, including parts of the U.S., Indonesia and New Zealand. When the heat is deeper, it is more difficult and more expensive to find. Those constraints have kept the sector's share of U.S. electricity generation at less than 1%.

Technological advances in well drilling, modeling and sensor technology are expected to change that. New funding for a start-up called Fervo Energy follows after drilling results show declining costs. Fervo uses horizontal drilling, modern sensors and modeling to turn deep underground heat into electricity. By pumping water through fractures in rock in a process similar to fracking, Fervo found that more parts of the world could economically generate electricity from geothermal energy. Old oil and gas wells could be retrofitted to produce geothermal power, while existing wells can extract geothermal energy alongside fossil fuels, potentially helping accelerate the industry's growth.

Pacific islanders object to gas project, take their case to investors

(The Korea Times; March 3) - The Tiwi Islands northwest of Australia have been a sanctuary for Indigenous peoples as well as possessing diverse marine ecosystems for over 18,000 years. In particular, their coastal areas are an internationally significant nesting site for marine turtles. In 2021, however, the islanders were alarmed by news of planned offshore drilling in the nearby Timor Sea, as part of the Barossa gas project.

Owned by Australia's Santos (50%), Korea's SK E&S (37.5%) and Japan's JERA (12.5%), the project aims to move natural gas by pipeline from the offshore field almost 200 miles to the Darwin liquefaction plant in Australia for the production of LNG. The announcement galvanized the islanders into becoming activists, driven by fears that the project would devastate their way of life. Even though the project has been discussed for 20 years, the Tiwi islanders say they were left out of the discussions.

Last week, they spoke with project investors in Asia and hosted a press conference at the National Assembly in Korea with Rep. Jang Hye-young from the minor opposition Justice Party. "Imagine if the Tiwi people came to Korea and started drilling the sacred spiritual Mount Baekdu for gas and laid a pipeline right through the Gyeongbok Palace. That's exactly what it feels like for us," Therese Bourke, the leader of the Malawu clan of the islands, said. She urged Korean financial institutions to stop financing the project. Conversely, Korean business insiders consider the project a pivotal energy opportunity.