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Biden Admin Approves Controversial Willow Project

The Biden administration gave a green light to ConocoPhillips' Willow development in Alaska, setting off a firestorm of criticism from activists warning that approving new oil production impedes Biden's broader climate agenda.

The administration on Monday issued a final record of decision for the 180,000 barrel per day Willow project, following an environmental review that supported a preferred option of three wellpads, eliminating one of the five initially proposed and deferring a fourth.

The final decision codifies the three-wellpad plan, although it shifts the deferral to a rejection, eliminating the possibility of a fourth wellpad.

The decision on Willow follows weeks of speculation that the Biden administration might be considering approving a two-wellpad structure, which could have forced ConocoPhillips to back away from the project since it has long said that three wellpads are the bare minimum needed for the project to be economically feasible.

According to modeling from Wood Mackenzie, reducing the number of allowed wellpads to two would have changed Willow's post-tax internal rate of return from 15% to 9.8% and drop total post-tax present value from $1.865 billion to negative $54 million.

ConocoPhillips CEO Ryan Lance said Monday that the government's approval was "the right decision for Alaska and our nation" and that the project falls within the Biden administration's environmental and social justice aims. He also played the projected $8 billion-$17 billion in new federal, state and local revenue that Willow would generate, as well the 300 long-term jobs it could potentially create.

A company spokesman said Monday that the decision means ConocoPhillips expects to immediately initiate gravel road construction activities and advance to a final investment decision.

Striking a Balance

In a move possibly aimed at softening the blow for environmental activists, the administration withdrew 2.8 million acres from consideration for Arctic leasing in the Beaufort Sea. The Department of the Interior also plans to issue rules in the coming months to block off 13 million acres in the National Petroleum Reserve- Alaska, which houses Willow.

Interior said that its final decision includes the relinquishment of some 68,000 acres by ConocoPhillips of its existing northernmost and southernmost leases within the development project, and roughly 15.4 million fewer barrels produced than the option that was floated in February.

Biden officials have cautioned against reading too much into the approval of Willow as a sign that the administration is all-in on new oil and gas development in Alaska, and have argued that the new Artic and North Slope restrictions are emblematic of trying to strike a balance between the need for near-term fossil fuel production and the administration's boarder climate targets.

Alaskan lawmakers sounded off last week about the possibility that the Biden administration could issue new restrictions that resulted in a de facto rejection of the project.

"If a company like ConocoPhillips is willing to put billions of dollars in a project and isn't able to advance their project, it is pretty tough for anybody else," Sen. Lisa Murkowski (R-Alaska) said during the CERAWeek by S&P Global conference in Houston on Friday.

Industry officials reportedly used the sidelines of CERAWeek to lobby administration officials on moving forward with the project.

Willow has faced an onslaught of opposition via internet and social media campaigns from grassroots organizations, even after the Biden administration took steps to mitigate the project's environmental impacts. That included shrinking the project's proposed footprint in the Teshekpuk Lake region, an ecologically sensitive area with significant wildlife implications, by more than 40%, as well as reducing the length of pipelines and lowering the volumes of freshwater used for the project.

"Biden approved Willow knowing full well that it'll cause massive and irreversible destruction, which is appalling," said Kristen Monsell, an attorney at the Center for Biological Diversity.

Monsell underscored the greenhouse gas (GHG) and wildlife implications of the project, saying it could result in locking in a GHG footprint of 239 million metric tons over 30 years.

Bridget DiCosmo and Emily Meredith, Houston

Equinor Aims to Advance Promising Field Offshore Brazil

Equinor is targeting a final investment decision for its BM-C-33 natural gas and condensate development offshore Brazil by the end of this year.

The Norwegian company is aiming to build on low-emissions technology already employed at its Bacalhau project, which includes combined-cycle power, Brazil country manager Veronica Coelho said during a panel discussion at the CERAWeek by S&P Global conference in Houston last week.

"If everything goes right … it could supply up to 15% of the Brazilian demand for gas, only from BM-C-33. It's huge," she said of the field. "The best value for the entire stakeholder framework is to bring that gas to the domestic market."

In addition to utilizing combined-cycle power systems, Equinor will also use offshore gas processing in BM-C-33 to further shrink its carbon footprint and environmental impact.

The company is also planning to drill a key appraisal well in June that will provide data to help it size up and evaluate the second phase of its Bacalhau development with Exxon Mobil, which Coelho said is "still to come." She added that the first stage of the Bacalhau project will break its own barriers.

"Bacalhau, when we start it up, is going to be a self-powered FPSO [floating production, storage and offloading vessel] with the most efficient carbon footprint in the world — below 9 kilograms of CO_2 per barrel," said Coelho.

Big on Brazil

Brazil continues to play a strategically vital role for Equinor, including in its energy transition ambitions. Last week the company signed a preliminary agreement to evaluate seven offshore wind projects with Brazilian state oil firm Petrobras that, if realized, could result in tens of billions of dollars in new investment.

Coelho said that Equinor sees potential in projects targeting smaller or more mature resources as well, where it will bring to bear its considerable expertise in optimizing recoveries in its Norwegian operations.

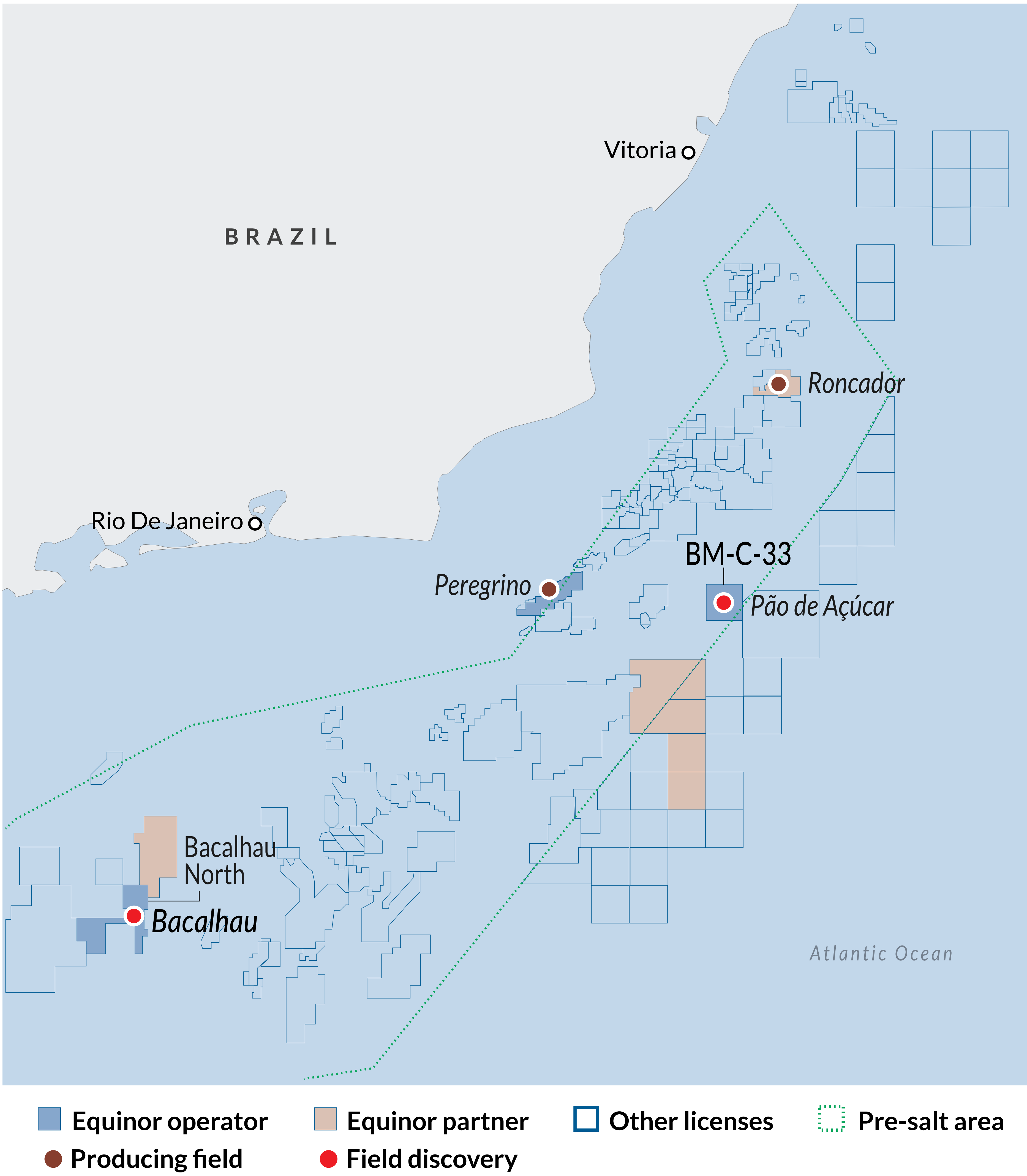
"We see tremendous value creation opportunities in areas that are already mature," she said.

Gas Goals

Speakers at CERAWeek said a new law in Brazil that aims to liberalize markets would enable the development of new projects to meet natural gas demand. But the implementation of the legislation is still uncertain, including the approach taken by the administration of President Luiz Inacio "Lula" da Silva.

Fernando Assumpcao Borges, Petrobras' chief exploration and production officer, detailed the company's efforts to tie in greater gas supplies from offshore pre-salt resources to help meet local demand as it ramps up production with 18 new FPSOs. Petrobras is "doubling the amount of gas that is produced to the market in the next five years," he said. "We are working hard on this to increase the amount of gas that's going to be supplied by our fields."

Equinor Projects In Brazil



Source: Equinor

Kathrine Schmidt, Houston

Offshore Dayrates to March Higher Amid Strong Demand

Sharp increases in dayrates for ultra-deepwater rigs and drillships are pushing up the price tags for offshore projects, but it remains unclear when higher costs may begin to significantly dent demand, analysts tell Energy Intelligence.

Cinnamon Edralin, the head of rig market research at Oslo-based consultancy Esgian, said that she expects offshore dayrates to continue rising toward the $500,000 mark.

“I see this as more of a question of when, rather than if, dayrates will hit $500,000,” said Edralin. “I expect the first dayrate we’ll see above $500,000 this cycle will be for a short-term campaign that requires a rig with certain high-spec capabilities. ... The high-end floating rig market is experiencing tight availability — demand is high and supply is rather limited, with few opportunities to bring in new capacity in the near term."

Leslie Cook, principal analyst for the upstream supply chain at Wood Mackenzie, was less certain that offshore dayrates would maintain their current trajectory.

“Our five-year forecast for day rates tops out at around $450,000 per day by 2026 for the ultra-deepwater sector,” Cook told Energy Intelligence. “Is $500,000 a possibility? Yes, but as of right now we are not modeling anything that high."

She pointed out that E&Ps have so far accepted rising rates and mobilization fees, but that might not last if costs continue to escalate. Cook also noted that the market remained extremely tight, and that appeared unlikely to change in the near future.

“Based on our recent forecast, we see demand outstripping supply for ultra-deepwater, high-spec rigs in the next 18 months,” she said.

That supply shortage could be alleviated some by rig reactivations and stranded newbuilds being brought into service, she added.

Undeterred Demand

If dayrates were to breach $500,000, some smaller players and riskier projects could be impacted, but break-even prices are still low enough for most existing programs to remain in the black, according to Edralin.

"During the prolonged downturn, break-even prices for offshore projects came down quite a bit, and some projects are still benefiting from this," said Edralin. "Oil prices remain sufficiently high to make most projects still profitable despite rate increases from not only rigs, but throughout the supply chain."

Edralin said that she thinks significant demand destruction for offshore services remains unlikely, at least as long as oil prices remain elevated.

“We have already heard about a few drilling campaigns being delayed citing high rig rates, but there is still plenty of demand as E&Ps seek to boost production while oil prices are still high and while also being responsive to energy security concerns,” she said.

Both Edralin and Cook said that projects that tap into existing infrastructure were the most likely to move forward due to their lower costs, while exploration projects and other developments in less mature regions like Africa could see their momentum slow as dayrate rise.

Smaller independents are also more likely to pare back, which could lead to them taking some creative and more collaborative measures.

“If a smaller operator isn’t able to piece together a drilling program attractive enough to secure a rig, it may need to form a 'rig share' club with other operators, or pay a higher rate to secure an in-demand rig for a short-term charter,” said Edralin.

Jeffrey Cavanaugh, New Orleans

US Shale Output Growth to Slow in April: EIA

Production growth in the US shale sector is expected to slow in April, according to the US Energy Information Administration (EIA), with few gains found outside Texas and North Dakota.

The agency’s latest *Drilling Productivity Report* (DPR), which estimates production from seven major US shale basins based on the number of drilling rigs at work and their productivity, predicts US shale oil output will rise by about 68,000 barrels per day from March to average about 9.214 million b/d in April.

That growth rate is a bit lower than the 75,000 b/d increase projected in last month's DPR. Overall shale production is also sharply down from last month's forecast, which saw output in the seven surveyed plays averaging well over 9.3 million b/d in March.

The EIA's lower forecast comes as many US producers are tempering their growth outlooks for domestic oil and gas production amid rising operational costs and ongoing oil-field equipment and labor shortages.

OIL OUTPUT FROM MAJOR US SHALE REGIONS

('000 b/d)	March	April	Chg.
Anadarko	442	453	11
Appalachia	138	140	2
Bakken	1,145	1,163	18
Eagle Ford	1,123	1,132	9
Haynesville	37	37	0
Niobrara	665	667	2
Permian	5,596	5,622	26
Total	**9,146**	**9,214**	**68**

Source: US Energy Information Administration

The biggest oil production uptick in April is expected to take place in the Permian Basin of West Texas and southeastern New Mexico, where the EIA sees crude output rising by about 26,000 b/d to just over 5.6 million b/d in the first full month of spring.

Oil production in the North Dakota Bakken tight oil play is also forecast to grow by about 18,000 b/d from March to roughly 1.16 b/d in April. Smaller gains are expected in the Oklahoma Anadarko Basin, the Colorado Denver-Julesberg Basin and the South Texas Eagle Ford Shale.

Natural gas production in the seven shale regions is also expected to increase by about 420 million cubic feet per day in March to more than 96.6 billion cubic feet per day.

Gas output in the Permian is forecast to increase by 93 MMcf/d in April to push the basin's average to nearly 22.5 Bcf/d, second only to the 113 MMcf/d increase projected in the Haynesville Shale in East Texas.

The Appalachian region, which includes the Marcellus and Utica shales, is also expected to contribute 75 MMcf/d in additional gas volumes in April.

GAS OUTPUT FROM MAJOR US SHALE REGIONS

(MMcf/d)	March	April	Chg.
Anadarko	6,870	6,892	22
Appalachia	34,879	34,954	75
Bakken	3,126	3,164	38
Eagle Ford	7,048	7,122	74
Haynesville	16,690	16,803	113
Niobrara	5,186	5,191	5
Permian	22,403	22,496	93
Total	**96,202**	**96,622**	**420**

Source: US Energy Information Administration

Meanwhile, the increase in stockpiles of drilled but uncompleted (DUC) wells slowed down in February, according to the DPR.

The EIA's data show that the number of DUCs in the seven surveyed shale plays increased by 21 in February, just half of the uptick recorded in January.

Despite the slowdown, the DUC count is still well off its pace from a year earlier, when it fell by 156.

DUC WELLS IN MAJOR US SHALE REGIONS

	January	February	Chg.
Anadarko	732	736	4
Appalachia	662	663	1
Bakken	579	580	1
Eagle Ford	434	426	-8
Haynesville	662	673	11
Niobrara	641	651	10
Permian	1,042	1,044	2
Total	**4,752**	**4,773**	**21**

Source: US Energy Information Administration

Staff Reports

Bank Runs Trip Up Oil Bulls

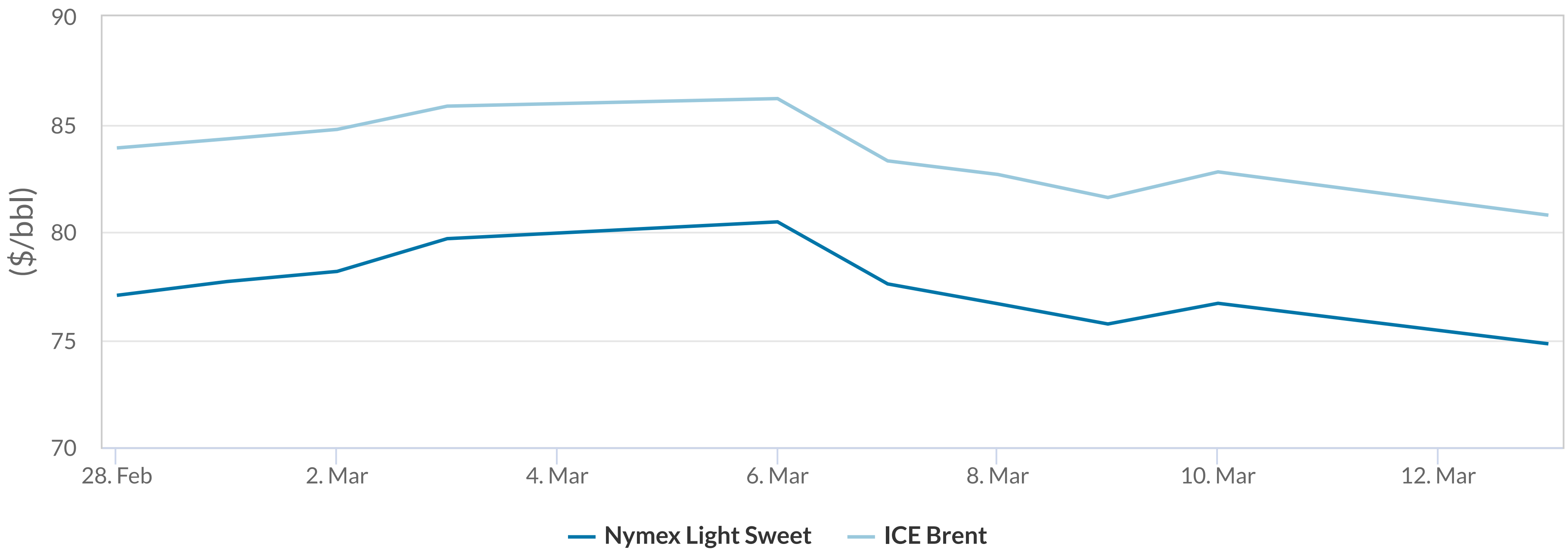
Oil futures sold off on Monday, with intensifying financial jitters in the US putting pressure on markets across the board.

In London, Brent crude for May delivery settled down $2.01 at $80.77 per barrel after trading as far down at $78.34/bbl earlier in the session.

In New York, April West Texas Intermediate (WTI) closed $1.88 lower at $74.80/bbl.

ICE BRENT VS. NYMEX WTI FUTURES

Front Month Contracts



Also in New York, April Nymex gasoline futures dropped by 5.44¢ to settle at $2.5914 per gallon, while the diesel contract edged 1.14¢ lower at end the session at $2.7615/gallon.

Monday saw virtually all markets reeling at the start of the day from sudden bank collapses and government and regulatory reactions in the world's largest economy.

The bleeding started last week with the collapse of Silicon Valley Bank (SVB), which, while not a massive institution, was a significant lender in the US. Over the weekend the government stepped in to guarantee deposits at the bank; since then several other regional institutions such as Signature and First Republic have dealt with liquidity issues.

While major banks appear unaffected and the federal regulators stepped in quickly, the crises faced at SVB and others have spooked investors, some sources said.

“The collapse of Silicon Valley Bank has led to confusion and uncertainty in the market, with concerns that it could lead to contagion among other regional banks,” said Matthew Weller with StoneX.

The news comes just ahead of inflation readings as well. The US Federal Reserve has tried to cool inflation via a series of interest rate hikes, and new data is set to arrive on Tuesday.

Some experts have warned that fiscal hawkishness could lead to recession, with bearish implications for oil demand. In addition, rate hikes strengthen the dollar, a dynamic that analysts say tends to dampen demand by making the commodity less affordable to holders of other currencies.

But while the banking hiccups may put the brakes on further hikes, “the market is nervous that the [Federal Reserve's] campaign to fight inflation by ending the era of cheap money has exposed cracks in the economy that could widen if it keeps up its rate hikes,” Weller said.

Frans Koster, New York

DATA SNAPSHOT

Oil and Gas Prices, Mar. 13, 2023

All data are produced by Energy Intelligence in cooperation with Refinitiv.

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-2.01	80.77	80.23
Nymex Light Sweet	-1.88	74.80	74.91
DME Oman	-1.73	80.39	79.34
ICE Murban	-1.81	81.26	80.78

INTERNATIONAL SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	-2.62	79.67	82.29
Dubai	+2.10	82.31	80.21
Forties	-1.20	81.10	82.30
Bonny Light	-1.35	84.75	86.10
Urals	-1.25	57.95	59.20
Opec Basket*			80.72

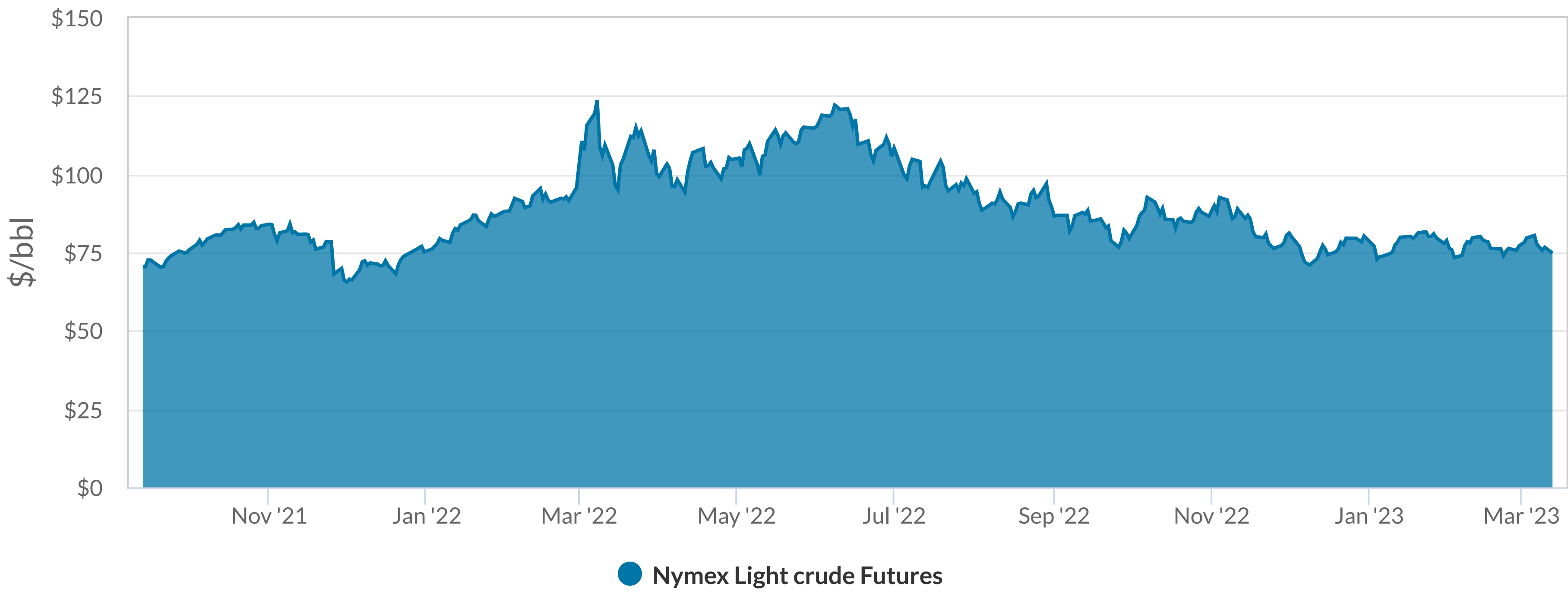
*Opec price assessed.

NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	-1.87	74.68	76.55
WTS (Midland)	-1.07	74.28	75.35
LLS	-2.07	77.68	79.75
Mars	-1.87	74.48	76.35
Bakken	-1.87	79.48	81.35

ICE BRENT CRUDE FUTURES

NYMEX LIGHT CRUDE FUTURES



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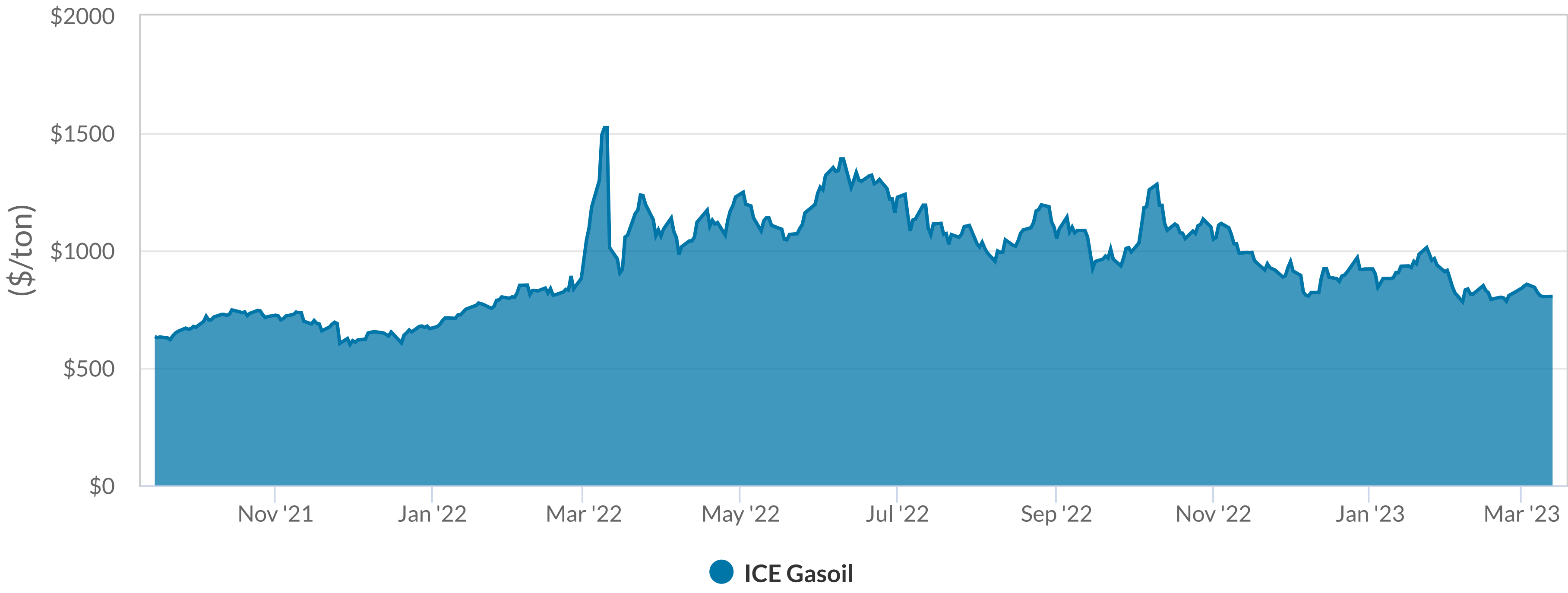
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-5.44	259.14	258.09
ULSD Diesel (¢/gal)	-1.14	276.15	268.50
ICE			
Gasoil ($/ton)	+0.75	804.25	785.00
Gasoil (¢/gal)	+0.24	256.69	250.54

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES

US SPOT REFINED PRODUCTS

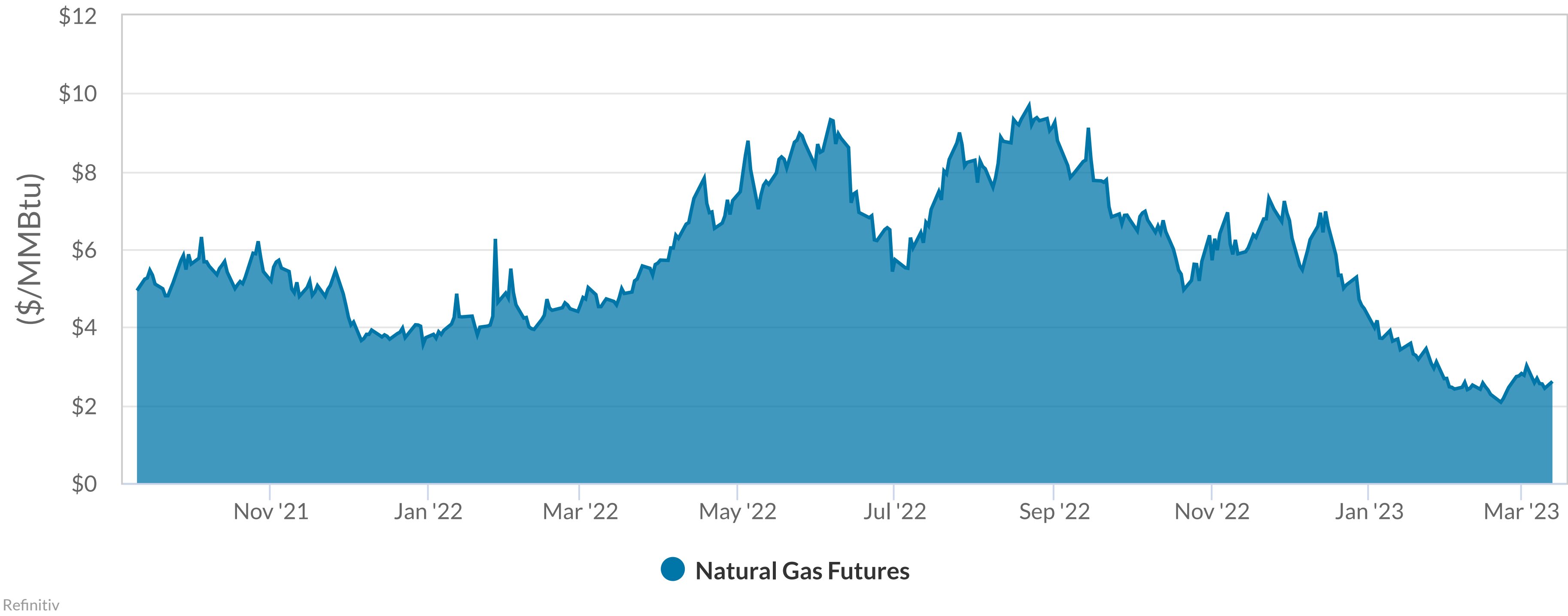
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	-4.36	246.15	250.51
No.2 Heating Oil	-0.53	261.30	261.83
No.2 ULSD Diesel	-0.53	278.55	279.08
No.6 Oil 0.3% *			90.05
No.6 Oil 1% *			73.87
No.6 Oil 3% *			67.12
Gulf Coast (¢/gal)			
Regular Gasoline			255.01
No.2 ULSD Diesel	+0.22	277.05	276.83
No.6 Oil 0.7% *			72.42
No.6 Oil 1% *			72.42
No.6 Oil 3% *			60.62

*Price in $/bbl. Percentages refer to sulfur content.

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	+8.30	780.80	772.50
ULSD Diesel	+0.50	820.50	820.00
Singapore ($/bbl)			
Gasoil	+4.59	99.17	94.58
Jet/Kerosene	+4.29	102.80	98.51
VLSFO Fuel Oil ($/ton)	+11.11	578.16	567.05
HSFO Fuel Oil 180 ($/ton)	+14.75	445.09	430.34

NYMEX NATURAL GAS FUTURES



NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.18	2.61
Henry Hub, Spot	+0.06	2.43
Transco Zone 6 - NY	+0.32	2.72
Chicago Citygate	+0.16	2.55
Rockies (Opal)	+0.66	5.44
Southern Calif. Citygate	+0.44	6.46
AECO Hub (Canada)	+0.16	2.32
Dutch TTF (euro/MWh)	-4.55	49.45
UK NBP Spot (p/th)	-3.00	129.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Mar. 13, 2023

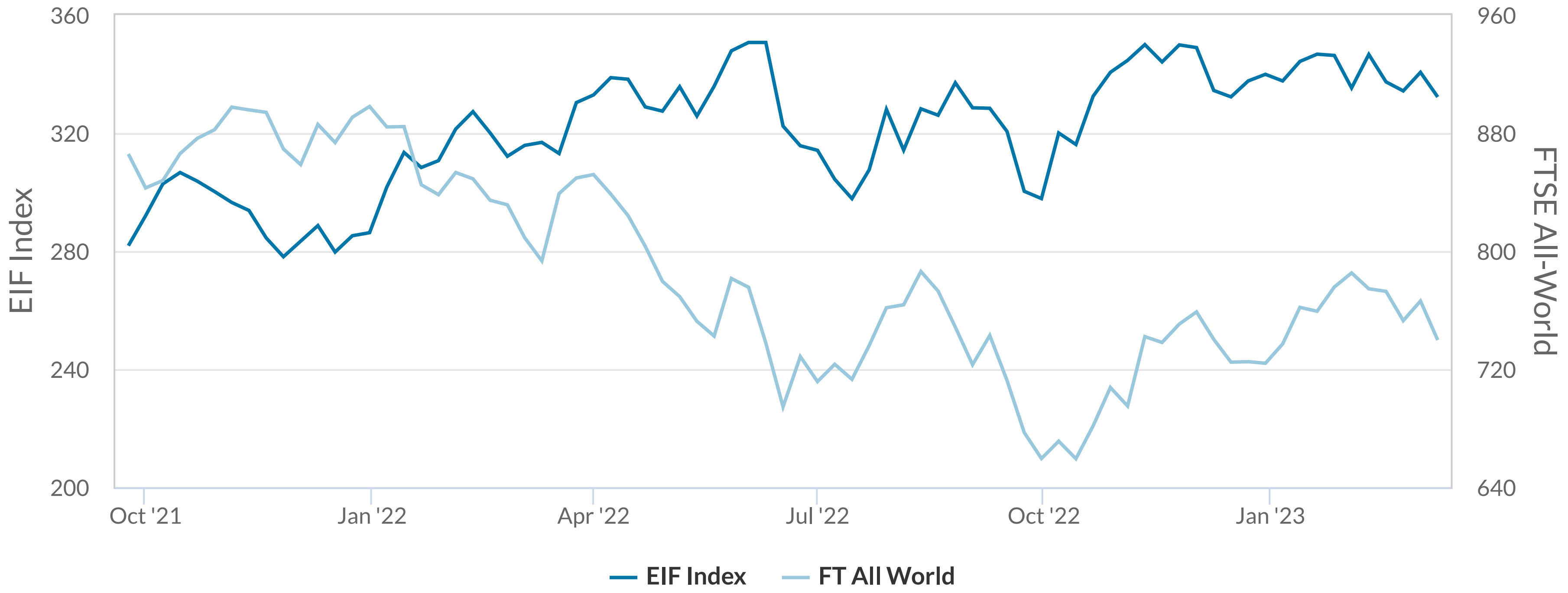
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	-2.86	332.22	-2.24
S&P 500	-5.83	3,855.76	+0.17
FTSE All-World*	-9.17	739.74	+1.83

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities