Oil and Gas News Briefs
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Platts sees oil market recovery to near $50 by late 2021

(S&P Global Platts; Aug. 26) – Continuing rebalancing of the global oil market largely supports firmer prices over the coming 18 months with demand exceeding supply and drawing down stockpiles — though growing concerns over the potential for a second wave of COVID-19 infections could derail the economic recovery. The International Energy Agency and OPEC both trimmed their oil-supply outlooks earlier in August due to a slower-than-expected demand recovery for transport fuels, especially aviation fuel.

As production cutbacks are helping to reduce or remove the gap between demand and supply, OPEC+ producers look to keep the market undersupplied through 2021, which S&P Global Platts Analytics forecasts will lead to an implied drawdown of global oil stockpiles by more than 5 million barrels per day during the fourth quarter of 2020. That drawdown of inventories would slacken to 1.5 million to 2 million barrels per day through late 2021. The stockpile drawdown will help to rebalance markets and boost prices.

Stockpiles remain high after building by nearly 1 billion barrels earlier in the year, and the huge inventory backlog will take time to work off. After surging back from near four-decade lows of $18 per barrel in April to over $40, Platts Analytics sees the tighter market pushing Brent crude toward $50 by the end of 2021.

But a number of uncertainties hang over the fragile rebalancing of the oil market as it struggles to recover from the historic plunge of 20% of global demand in the wake of the pandemic lockdowns. "Despite having managed to pull off the greatest balancing act ever seen by the oil markets, prices are stuck at the mid-$40 range and they will continue to be so for a while," the Norwegian consultancy Rystad Energy said in a note.

Investor in Cheniere Energy LNG sells out at $5 billion profit

(Bloomberg; Aug. 24) - Blackstone Group will see a $5 billion gain from selling a stake in the largest liquefied natural gas export terminal in the U.S. The firm's private-equity business is unloading its stake of just over 40% of Cheniere Energy Partners to Brookfield Asset Management and its own affiliated infrastructure group, according to a filing Aug. 24. The deal is valued at $7 billion, according to people familiar with the matter. Representatives for Blackstone and Brookfield declined comment.

The infrastructure funds are betting on Cheniere continuing to thrive even with short-term challenges to U.S. LNG exports. Houston-based Cheniere generates $4.3 billion a year from Sabine Pass and a smaller LNG terminal in Corpus Christi, Texas, through its fixed-fee contract structure, protecting it from the collapse in prices after the COVID-19 pandemic and a mild winter hammered demand. Under the fee structure, Cheniere gets paid for the reserved liquefaction capacity, even if the customer does not want the gas.

Blackstone Energy Partners made a $1.5 billion investment in 2012 in Cheniere Energy Partners, which was created by Cheniere Energy to develop the $25 billion Sabine Pass LNG terminal in Louisiana. That project, which is underpinned by 20-year contracts with major global traders and utilities, shipped its first cargo in 2016. More than 85% of the capacity at Sabine Pass is contracted and is expected to earn about $3.3 billion in fixed fees annually by the time the sixth liquefaction unit starts up in less than three years.

China filled up its natural gas storage with cheap imports

(Bloomberg; Aug. 25) - Don't expect an LNG buying binge ahead of winter from the world's fastest-growing consumer of the fuel. China will likely pull back on spot purchases of liquefied natural gas before the peak demand season as a flurry of earlier bargain buying nearly maxed out storage space. Meanwhile, seaborne LNG and pipeline gas deliveries deferred during the worst of the COVID-19 pandemic are expected to finally arrive further weakening China's appetite for more supplies.

"There is a big question about whether demand will recover enough in September and October to digest the almost-full gas storage while pipeline imports resume," said Miaoru Huang, a Beijing-based analyst with Wood Mackenzie. "There will be no room for more injections to underground storage by early September." Some of China's biggest gas buyers have lowered their spot purchasing since July as they struggle with higher inventories, according to traders at the state companies and their counterparties.

PetroChina, Sinopec and China National Offshore Oil Corp. have already largely finished buying gas for the winter, sources said. It has been a roller-coaster year for gas into China. State firms declared force majeure on some purchases from February as coronavirus lockdowns smothered demand. Later, as China was among the first nations to emerge from the pandemic, its economic rebound coincided with a crash in LNG prices to record lows. China then feasted on cheap gas, boosting second-quarter imports by 20% year-on-year and filling the nation's storage faster than usual.

Spot prices up in Asia, but not enough to make U.S. LNG profitable

(Reuters commentary; Aug. 23) - The spot price of liquefied natural gas for delivery to North Asia has more than doubled since hitting an all-time low earlier this year, but the gain is more impressive on paper than in reality. The spot price ended last week at $4.10 per million Btu, its highest since mid-January and 122% above the record low of

$1.85 touched in separate weeks at the beginning and end of May. But it's still far below last year's pre-winter peak of $6.80 in October.

There are some signs that supply had been tightening, with a maintenance shutdown scheduled for Chevron's Gorgon project in Western Australia and cancellations of U.S. LNG cargoes. However, the supply issues may not have much impact with Gorgon now undergoing a phased shutdown, and more U.S. cargoes expected in coming months. Meanwhile, there is some evidence of improving demand in North Asia, a region that includes Japan, China, and South Korea, the world's three biggest buyers of LNG.

However, the current spot price for Asian LNG is barely enough to incentivize more cargoes to be offered in the market. Most U.S. projects require a price of $5 to $6 per million Btu to make shipping to Asia profitable, while Australia's East Coast ventures based on coal-seam gas are believed to need a spot price of at least $3.50 to make money — although West Coast projects need far less, closer to $2. This means that even the recent sharp rise in the spot price isn't enough to make U.S. exports to Asia viable on a spot basis, while many Australian producers are only just in the money.

Oil Search still targets Alaska output in 2025

(Reuters; Aug. 24) - Oil Search aims to start producing crude on Alaska's North Slope in 2025 and expand Papua New Guinea liquefied natural gas exports from 2027, after slashing costs to weather weaker oil prices in the wake of the coronavirus outbreak, its chief executive said Aug. 25. The Australian-listed company reported an 85% plunge in half-year core profit and scrapped its dividend, hurt by the COVID-19 slump in oil prices.

After axing a third of its workforce and raising cash earlier this year, the company is now focused on cutting the break-even cost to below $40 a barrel at its Pikka oil project in Alaska, where the company has found more oil with recent drilling. "The world is a very different place today than it was six months ago," CEO Keiran Wulff was quoted in the Australian Financial Review. A final investment decision on Pikka is targeted by the end of 2021 with production in 2025, but it involves reduced up-front capital spending and phased development. A process to sell down a 15% stake has been delayed to 2021.

In Papua New Guinea, Oil Search's growth has stalled due to tough bargaining by the government, but the pain of the oil-price slump has led to a reopening of fiscal negotiations, Wulff said. The CEO said he was confident the two-part $13 billion LNG expansion — one led by ExxonMobil and the other by Total with Oil Search a partner in both — will go ahead in time to meet forecasts of growing global demand by 2027.

Green energy developers worth more than big oil companies

(E&E News; Aug. 25) - "Supermajor" has long described the world's largest oil companies. Increasingly, it is coming to define the biggest producers of wind and solar power. Large-scale renewable energy developers boast valuations greater than the big players in oil and gas. NextEra Energy, a Florida-based power company and the world's largest generator of wind and solar electricity, is worth $138 billion. That's more than Shell ($112 billion), BP ($71 billion) and ConocoPhillips ($40 billion).

Iberdrola, the Spain's renewable titan, is valued at $78 billion. And Ørsted, once a tiny Danish utility, has been transformed into a global offshore wind juggernaut worth $58 billion. The role reversal reflects the times. Oil prices and stocks have been battered by the coronavirus pandemic and resulting drop-off in demand. BP and Shell have been forced to write down their assets by $17.5 billion and $22 billion, respectively. Many of the world's oil reserves simply aren't profitable when crude is trading for $45 a barrel.

Sky-high valuations for renewable developers also speak to wider changes in energy markets. Some analysts are predicting the world may soon see a peak in demand for oil. Wind and solar are being propelled forward by a combination of falling costs and government climate targets. That has made renewable energy projects increasingly attractive to investors. Researchers at Imperial College London recently concluded that renewable energy companies delivered better returns than their oil competitors.

ExxonMobil dropped from Dow Jones Industrial Average

(E&E News; Aug. 25) - ExxonMobil was removed from the Dow Jones Industrial Average on Aug. 24 after more than 90 years, in a largely symbolic move that nevertheless sums up the oil industry's woes in the past five years. Exxon was pulled from the widely watched stock index along with Pfizer and Raytheon Technologies, according to a news release. The three companies were replaced by SalesForce.com, biopharmaceutical company Amgen and Honeywell International.

S&P Dow Jones Indices said the changes were a routine shuffling of the index's members to remove "overlap between companies of similar scope and adding new types of businesses that better reflect the American economy." Exxon and its oil-producing peers are far from dead, however. Chevron, the second-biggest U.S. oil company, remains a part of the index, and Exxon's market capitalization is bigger than two of the companies that joined the Dow. Chevron's the only energy stock in the index.

The decision shows how quickly the energy industry is changing amid climate concerns, falling oil prices and the rise of renewable power sources. " ExxonMobil out of the DJIA. Incredible," said Chris Nelder, a manager at the Rocky Mountain Institute. Exxon has been a part of the Dow Jones average since 1928, when it was known as Standard Oil of New Jersey. As recently as 2011, when oil prices were high, it was the largest U.S.

corporation by market capitalization. Its stock price has fallen by nearly half since those days, and tech firms like Apple have passed Big Oil as the largest U.S. corporations.

Husky Energy links executive pay to emissions reduction

(CBC News; Canada; Aug. 23) - For executives at Husky Energy's headquarters in Calgary, there is a new wrinkle in how their pay is calculated: climate change. This is the first year the company is linking greenhouse gas emissions to compensation as part of a new plan that also includes a goal to reduce carbon emissions by 25% over the next five years and set a similar gender-diversity target for management.

The measures come at a time when oil and gas companies worldwide are competing for limited investment dollars and investors are increasingly focused on environmental, social and governance issues. For Alberta's oil sands, its image is also on the line. The sector is making improvements on lowering its greenhouse gas intensity, but it's still known for producing a high-carbon source of oil. That's why investment firms, pension funds and insurers regularly blacklist or curtail their involvement in the oil sands.

"It's important that we move and that we show leadership, but it's also important that the entire Canadian industry shows leadership because we're out in a world where we are fighting for capital, and we need to show the world that we know how to manage these risks — not just as Husky, but as an industry," said Janet Annesley, Husky's senior vice president of corporate affairs and human resources. How much of an executive's pay is tied to climate goals will depend on their responsibilities toward achieving the targets.

Fossil fuel opponents win seats on college board at Harvard

(The Wall Street Journal; Aug. 21) - An activist group of Harvard University alumni opposed to the fossil fuel industry won three of the five seats on the college's Board of Overseers up for election this year. The victory is part of the group's campaign to force Harvard's $40 billion endowment to end its investments in oil-and-gas companies. The election results could embolden similar movements at other U.S. universities, which are increasingly deciding to pull their money out of fossil fuels.

Harvard and Yale University run two of the largest university endowments, and investment managers at schools across the country see them as bellwethers. Harvard's Board of Overseers doesn't supervise the school's endowment but takes part in appointing members to the Harvard Corp., which oversees the endowment managers. The fossil fuel divestment movement has grown more popular over the past decade before accelerating in the past year, gaining traction at several schools.

Increased awareness of climate change and the steep decline in many traditional energy investments has helped spur the movement. Shares of ExxonMobil and Chevron have fallen by about 40% and 30% respectively this year, compared with a 5% gain in the S&P 500 index. The last time a protest organization successfully ran petition candidates for Harvard's governing body was in 1989 when Archbishop Desmond Tutu ran on a platform for divestment from apartheid South Africa.

European Union push for 'green' hydrogen energy will be costly

(Reuters; Aug. 26) - A European Union goal to boost the use of zero-carbon hydrogen is likely to be a pipe dream unless the bloc can find billions in investment and persuade member states, under strain from the pandemic hit to their economies, to give their backing. Last month the European Commission mapped out a plan to expand the production and use of "green" hydrogen — a zero-carbon fuel made by electrolysis, using renewable power from wind and solar, that splits water into hydrogen and oxygen.

The aim is to scale up European hydrogen projects across polluting sectors — from chemicals to steel — to meet a net-zero emissions goal by 2050 and become a leader in a market analysts expect to be worth $1.2 trillion by that date. "This was never going to be easy. ... You need everything: scaling up on the production side and the demand side at the same time; you need to have the infrastructure in place. A lot of things have to come together," said Noe van Hulst, hydrogen envoy for the Dutch government.

Europe's heavy industry already consumes millions of tonnes of hydrogen each year, but it is mostly produced from coal or natural gas and therefore contributes to greenhouse gas emissions. Green hydrogen costs much more than other forms of the gas, which are produced from fossil fuels, and more than blue hydrogen, which relies on hydrocarbon-based energy but the resulting emissions are captured. At least two-thirds of the cost of hydrogen production is the energy used to make it, meaning green hydrogen should become cheaper as renewable energy costs continue to fall.

New gas-fueled power plant comes online in Japan

(S&P Global Platts; Aug. 24) - Japan Petroleum Exploration expects to require about 200,000 tonnes of additional liquefied natural gas in fiscal year 2020-2021 (April 2020 to March 2021), following the commercial start-up of the 1.18-gigawatt Fukushima natural gas power plant, where it holds a 33% stake. JAPEX started commercial operations at the plant's second combined-cycle gas turbine on Aug. 24, after starting up commercial operations at the first unit on April 30.

The plant will require about 1 million tonnes per year of LNG for power generation once it reaches full operation, according to a JAPEX spokeswoman. That's equal to about 48 billion cubic feet of natural gas. The other owners of the plant are Mitsui, 29%; Osaka Gas, 20%; Mitsubishi Gas Chemical, 9%; and Hokkaido Electric Power, 9%. JAPEX has a supply contract to take up to 480,000 tonnes per year of LNG from the Malaysia LNG Tiga project under a 20-year contract to 2022.

Total signs security pact with Mozambique government

(Reuters; Aug. 24) - French oil major Total has signed a security pact with the Mozambique government to protect a $20 billion natural gas project being developed in the southern African country, the company said Aug. 24. Mozambican security forces have been battling a low-level insurgency against militias suspected of having links to Islamic State in the gas-rich north of the country. Violence in the northern Cabo Delgado region has recently claimed dozens of lives. Earlier this month insurgents captured a heavily defended port in the far northern town of Mocimboa da Praia.

Total's project includes development of the Golfinho and Atum gas fields offshore, with more than 60 trillion cubic feet of gas, and construction of an onshore liquefaction plant with a capacity of 13.1 million tonnes per year. Initial production is set for 2024. " This ... bolsters security measures and endeavors to create a safe operating environment for partners like Total, which enables their ongoing investment in Mozambican industry," said Minister of Mineral Resources and Energy Ernesto Elias Tonela.

BLM plans oil and gas lease sales in 13 states by September

(Bloomberg; Aug. 24) - The Interior Department is set to auction oil and gas drilling rights to an area of federal land roughly twice the size of Los Angeles over the next six weeks, as part of its first oil and gas lease sales since March. Environmental groups are calling the sales a last-minute land rush for the oil industry before the November election. But an oil industry group said the auctions are necessary to ensure future jobs.

The Bureau of Land Management will begin a series of nine oil and gas lease sales nationwide starting Aug. 26, auctioning the drilling rights to more than 535,000 acres of federal public land and minerals in 13 states from Nevada to Michigan. Amid the coronavirus pandemic and economic turmoil in the fossil energy industry, the land bureau canceled all oil and gas lease sales it had previously scheduled for the summer.

Lease sales scheduled through the end of September cover land in Michigan, Alabama, Mississippi, Louisiana, Texas, Oklahoma, New Mexico, Colorado, Utah, Wyoming, North Dakota, Montana, and Nevada.

Michigan regulators hear both sides of pipeline tunnel debate

(Detroit Free Press; Aug. 24) - The Michigan Public Service Commission heard three hours of public comments Aug. 24 on Canadian oil transport giant Enbridge's more than half-billion-dollar proposal to build a new oil and gas pipeline in a tunnel under the Straits of Mackinac when lakes Michigan and Huron meet. The hearing pitted opposing viewpoints: business and industry organizations, labor unions and some local politicians who want the project to proceed as quickly as possible versus environmental groups and some local residents who want a full review of potential impacts and alternatives.

At issue is a proposed replacement of the 67-year-old, twin pipelines Enbridge operates along the Straits of Mackinac lake bottom — aging lines that have suffered multiple, damaging anchor strikes and lost support structures in recent years. Many consider the lines — moving 23 million gallons of oil and natural gas liquids per day east through Michigan’s Upper Peninsula, into the Lower Peninsula and on to a hub in Sarnia, Ontario — a major threat to the Great Lakes and the economies built around them.

The tunnel — approved by the state in the lame-duck final days of Gov. Rick Snyder's term — is opposed by Gov. Gretchen Whitmer, who was elected in 2018, and Attorney General Dana Nessel. Environmentalists and others question whether the state should commit to a further 99 years of fossil fuel use at a time of growing concern about climate change, and say there are too many unknowns about the environmental impacts of the tunnel. The state commission continues to accept public comments on the proposal.

West Coast Canada propane terminal doubles export license

(Natural Gas Intelligence; Aug. 24) - After a year of overseas sales growth, the pioneer of propane tanker loadings on the North Pacific coast of British Columbia has doubled the volume authorized for its international traffic in the natural gas byproduct. AltaGas has obtained a second 25-year export license for 40,000 barrels per day from the Canada Energy Regulator. The Calgary-based company fully utilized its existing 40,000-barrel-per-day export license in the April-June quarter this year.

The C$500 million (US$375 million) Ridley Island Propane Export Terminal near Prince Rupert opened in mid-2019 at a former coal-loading dock site with none of the fuss that fossil fuel foes raise against oil and gas pipeline projects and tanker traffic increases elsewhere in the province. Propane travels by train to the terminal where the Prince Rupert seaport routinely loads jumbo freighters with other bulk commodity exports delivered on rails from inland Canada, such as grain.

The successful request for a second export license is based on a winning combination of abundant propane supply from the liquids-rich Montney Shale formation that straddles northern British Columbia and Alberta, plus strong overseas demand. The

Pacific Coast terminal boasts a 10-day tanker trip to Asia, two weeks less than cargoes from U.S. Gulf of Mexico terminals.

Colorado counties say land use is their decision, not the state's

(Greeley Tribune; CO; Aug. 24) - With state regulators digging into the bulk of proposals to carry out a broad overhaul of oil and gas rules, Colorado's two top energy-producing counties are questioning the state's authority to establish minimum standards. The newly seated full-time Colorado Oil and Gas Conservation Commission is starting two weeks of hearings on the "mission change" portion of regulations implementing Senate Bill 181. The 2019 law changed the commission's mission from fostering oil and gas development to regulating it in a manner that protects the public health, safety and the environment.

The law also expanded local governments' authority to oversee oil and gas under their land-use regulatory powers. And that's where the state and counties disagree. The hearings start Aug. 24. "I think the (proposed state) rules are overreaching at best," Weld County Commissioner Barbara Kirkmeyer said of the proposals that address, among other things, the location of oil and gas wells, the cumulative impacts of drilling and who can contest development proposals.

Weld County is the state's top oil and gas producer with 20,000 of Colorado's 52,000 active wells. County officials opposed several provisions of SB 181 and want counties to decide the siting of wells and other matters related to what happens on top of the ground. Kirkmeyer said the county wants input from the COGCC on well sites, but that under the new law, the state agency's authority is primarily over the "down hole," or underground activities such as drilling. "They need to stay in their lane, basically, and their lane is down hole," Kirkmeyer said. "They're not a co-equal authority when it comes to land use."

New Asia refineries focus on plastics, not transport fuels

(Bloomberg; Aug. 26) – As the age of the hydrocarbon enters its final era, the action increasingly moves to Asia and plastics take center stage. With demand for transport fuels set to tail off in the years ahead, a new breed of processing plants is sprouting up across the region. These integrated refineries convert oil into petrochemicals, the building blocks for everything from food packaging to car interiors, and produce less fuels like gasoline.

In China, the biggest is Rongsheng Petrochemical's plant on Zhoushan Island near Ningbo. The 800,000 barrel-a-day operation opened in 2019 and will reach full capacity before year-end. An Indian Oil Corp.-led group is planning a gigantic 1.2 million barrels a day oil-to-chemicals complex on that country's west coast. Saudi Aramco, as part of its strategy to invest downstream in Asia, has or plans to take a stake in both projects.

All told, more than half of the refining capacity that comes on stream from 2019 to 2027 will be added in Asia and around 70% to 80% of this will be plastics-focused, according to industry consultant Wood Mackenzie. Petrochemicals will account for more than a third of global oil demand growth to 2030 and nearly half through 2050, the International Energy Agency predicts. “It doesn’t make sense now to operate a standalone refinery or a standalone petrochemicals plant for that matter,” said Sushant Gupta, research director for Asia Pacific refining at Wood Mackenzie.