# Oil and Gas News Briefs
# Compiled by Larry Persily
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## Despite start of recovery, oil industry has reasons to be hesitant

(CNN Business commentary; Dec. 21) - The oil industry has always been a boom-and-bust business, and 2020 will go down as the biggest bust in history. But months of supply cuts and underinvestment are about to smack headlong into resurgent demand as the arrival of a vaccine buoys hopes for a return to normalcy. That's a prescription for turning the oil glut into a market of scarcity capable of pushing prices high enough — above $65 a barrel — for exploration and production companies to start drilling again.

A full comeback won't happen overnight, however, despite the unbridled enthusiasm of traders. U.S. benchmark West Texas Intermediate closed in on $50 a barrel last week for the first time since February as vials of Pfizer's new vaccine began arriving at hospitals. But for now, oil consumption still remains depressed as governments impose new travel restrictions to slow the spread of the virus during the holidays.

There is also a vast sea of oil in storage waiting for markets to improve. Global oil stockpiles are near an all-time high at almost 3 billion barrels, and OPEC+, led by Saudi Arabia and Russia, has huge, unused production capacity ready to go. Pushing those problems aside will take time, as will inoculating the world against coronavirus.

The oil industry has drastically cut investment in exploration and drilling since 2015. Globally, investment totaled about $880 billion in 2014. Investment this year is expected to be $383 billion, the lowest level in 15 years and a large 20% below 2019, according to the energy consultancy Rystad Energy. Exploration and production executives have been reluctant to make major investments after being twice bitten by price downturns in the past five years. That boardroom skittishness won't disappear immediately.

## U.S. shale oil output down 20% from start of the year

(Reuters; Dec. 22) - U.S. oil and gas shares and drilling activity are edging higher, but a disastrous year for the energy industry means the go-go days of the shale boom may be gone for good. Deep spending cuts that came with the collapse in fuel demand and oil prices due to the COVID-19 pandemic have ended an era that put the U.S. atop the ranks of the world's biggest producers. The shale industry will ring in the New Year pumping 7.44 million barrels per day, down nearly 20% from the beginning of 2020.

Shale producers were hit hard after borrowing to expand production and then slashed spending and output to cut losses. Shale wells' quick development made it the first choice at larger firms to impose cuts.  Even as growth resumes, OPEC and allies plan to increase their output, undercutting efforts to restart some shale fields.  Besides, rising demand for cleaner fuels means global consumption may never return to its prior peak.

U.S. shale company outlays next year will reach $54 billion, up slightly from 2020 but well below 2019's $104 billion, estimates data provider IHSMarkit.  Top independent shale producers Pioneer Natural Resources, Diamondback Energy and ConocoPhillips forecast output at flat to slightly above current levels.  Total U.S. oil output could fall by 1 million barrels per day next year, say analysts, on top of a 670,000-barrel drop this year.

## Exxon reaches 120,000 barrels per day offshore Guyana production

(Argus Media; Dec. 21) - ExxonMobil has reached targeted oil production of 120,000 barrels per day at the $4.4 billion first-phase Liza development in Guyana's deepwater Stabroek block, a milestone that had been delayed by an earlier reinjection problem and equipment delays.  The target was achieved a year after start-up of the Liza Destiny floating production, storage, and offloading vessel, with the company targeting full production in first quarter 2020.

"We are disappointed by the number of equipment issues experienced and that, because of these issues and COVID-19, commissioning of the gas-injection system took longer than originally projected," ExxonMobil Guyana President Alistair Routledge said.  In subsequent stages, ExxonMobil plans to expand Guyana's offshore flows to 750,000 barrels per day in 2026.

Guyana's oil production is rising against the backdrop of a new legal development in the country's 120-year-old territorial dispute with neighboring Venezuela.  The International Court of Justice said Dec. 18 it has jurisdiction to hear Guyana's case seeking validation of its boundary with Venezuela.  The festering dispute is a legacy of British colonialism in Guyana. Venezuela has long claimed sovereignty over the Essequibo region that comprises the western two-thirds of Guyana, including oil-prone maritime territory.

## Gazprom will restart production at mothballed Siberia oil wells

(Reuters; Dec. 22) - Russia's Gazprom Neft will start boosting oil output by restarting mothballed oil wells in West Siberia in line with output plans agreed by the OPEC+ group of oil-producing nations, CEO Alexander Dyukov said Dec. 22.  Russian oil producers have idled a significant number of wells to comply with massive output cuts under the OPEC+ global production deal.

The Organization of the Petroleum Exporting Countries and other large oil producers led by Russia, a group known as OPEC+, agreed to cut their combined oil output by 9.7 million barrels per day in May-July to combat oversupply triggered by the economic fallout from the pandemic. OPEC+ has said it will continue easing cuts from the record supply reduction by an expected 500,000 barrels per day in January. Russia plans to raise its production by 125,000 barrels per day within that quota.

## Permian drillers begin completing wells, restarting production

(Albuquerque Journal; Dec. 20) - With oil prices holding fairly steady above $40 per barrel, producers are breathing a bit easier in the Permian Basin in southeastern New Mexico and West Texas. Most producers have reopened the spigots on wells that they shut in May after the pandemic cut oil demand and sliced prices to 20-year lows. Some operators are even drilling new wells, while others are taking the final steps needed to get oil flowing from ones they drilled before the pandemic hit but that they let sit idle.

Regeneration Energy President Raye Miller said his company fracked and completed a well this month for the first time since before the pandemic. The company drilled the well in 2019, but it didn't do the hydraulic fracturing needed to crack open the shale rock until now. "We already spent the money to drill the well last year, so at this point it made sense to complete it and get it producing," Miller said.

Like most operators, Regeneration Energy shut in all the 60-plus wells it operates in the Permian last spring. But it steadily reopened them again as prices began to recover over the summer. Prices need to climb above $50 per barrel and remain there for Regeneration to invest in drilling new wells, Miller said. But some larger producers with deeper pockets are slowly reinitiating drilling activities. "Things are a bit rosier," Miller said. "We're not back to a robust economy, but hopefully we've seen the worst of it."

## Canada's oil patch starts to show signs of recovery

(The Canadian Press; Dec. 20) - The somber mood that has gripped Canada's oil patch for several years is starting to show flickers of hope with several more financially secure companies making moves to grow in 2021. Recent hopeful export pipeline news is offsetting the ongoing reality of volatile commodity prices, general investor distaste for the sector and regulatory uncertainty and leading to more mergers and targeted increases in capital spending plans, observers say.

"The oil patch has changed again. I think it's changed forever," said Neil Roszell, CEO of newly created Headwater Exploration. "I don't think we're ever going to see 100 small companies active again in western Canada." Roszell heads a team of executives who created, built and sold three Calgary-based oil and gas companies in the past 12 years.  Just before the pandemic, the team took over management of a junior company called Corridor Resources, changed its name to Headwater Exploration and raised $50 million in equity to add to its working capital of $65 million, now with plans to drill in 2021.

Meanwhile, work has started on the Minnesota portion of Enbridge's Canadian Line 3 replacement pipeline after six years of regulatory delays, potentially adding 370,000 barrels per day of export capacity beginning next fall.  Construction is also advancing on the Trans Mountain pipeline expansion from Edmonton to Canada's West Coast, which will triple existing capacity to about 890,000 barrels per day by the end of 2022.  "I'm optimistic with regards to the recovery for the Canadian energy sector, with a dose of cautiousness thrown in," said Grant Fagerheim, CEO of Calgary's Whitecap Resources.

## Replacement oil pipeline in Minnesota will employ more than 4,000

(The Associated Press; Dec. 19) - More than 4,000 workers are expected in northern Minnesota over the next couple weeks to build the contentious Line 3 oil pipeline replacement.  It's a nearly $3 billion project that's expected to take up to nine months to build.  Calgary-based Enbridge plans to double capacity of its half-century-old line that originates in Canada to 760,000 barrels per day.  Opponents of the line have escalated their efforts to block construction, while law enforcement focuses on keeping the peace.

Authorities said 22 protesters were arrested Dec. 14 after they blocked equipment and refused orders to disperse, the Minneapolis Star Tribune reported.  Most of the arrests were for misdemeanor trespassing on a posted construction site.  Construction has ramped up quickly on Line 3 after Enbridge received its final state and federal permits late last month.  So, too, have the protests of activists determined to stop work on the pipeline, at least until legal challenges can be heard in court.

In Aitkin County, just north of the tiny town of Palisade, construction workers are clearing a wide path through the forest near the Mississippi River to make way for the new pipeline.  Line 3 begins in Alberta and clips a corner of North Dakota before crossing Minnesota on its way to Enbridge's terminal in Superior, Wisconsin.  The 330 miles of replacement segments in Canada, North Dakota, and Wisconsin are already complete, leaving only the 337-mile stretch in Minnesota.

## Australia's chief economist says LNG overcapacity likely to remain

(Argus Media; Dec. 20) – The global LNG trade will increase by 1.1% from a year earlier to 349 million tonnes in 2020, according to the Australian government's commodity forecaster, a sharp slowdown from previous growth because of the hit from the COVID-19 pandemic.  But it sees a recovery in global demand underway as Asian economies resume activity in the wake of the pandemic and cold Northern Hemisphere winter. Global LNG trade is expected to continue to recover in 2021 and 2022, rising by about 4% per year, Australia's Office of the Chief Economist said in its latest report.

The LNG market is expected to tighten as demand recovers and absorbs the available supply capacity, the report said. "However, given the large-scale expansion of global LNG capacity in recent years, demand is expected to continue to fall short of total supply capacity." China's LNG imports are expected to grow by 8.8% to reach an estimated 65 million tonnes in 2020, making it the world's second-largest LNG importer after Japan, the report said. Japan will import 74 million tonnes in 2020, down 4.8% from 2019. Japan's LNG imports are forecast to fall marginally in 2021 and 2022.

The overcapacity is expected to remain for the foreseeable future. Global LNG capacity was estimated at close to 400 million tonnes annually at the end of 2019, with an additional 125 million tonnes under construction or sanctioned for development. There is more than 900 million tonnes of proposed LNG capacity in the pre-final investment decision stage, although much of this is unlikely to proceed, the report said.

## Several Australia gas projects could move forward in 2021

(Natural Gas Intelligence; Dec. 21) - As the pandemic eases and the global economy recovers, $11 billion of Australian natural gas projects could be sanctioned as soon as next year, according to a report this month by consultancy Wood Mackenzie. The country has helped drive growth in global LNG supplies in recent years and exports are expected to drive the next wave of Australian final investment decisions next year.

The first project expected to be sanctioned in 2021 is Mitsui Australia's Waitsia gas field. The project would deliver its gas and export LNG from the North West Shelf liquefaction terminal, with production starting in late 2023. Next, Santos is expected to sanction the Barossa gas field in the Northern Territory late in second-quarter 2021. Barossa would backfill the Darwin LNG terminal when the Bayu-Undan field stops production. Woodside is expected to greenlight its Scarborough gas field. The field would feed a second liquefaction train at the Pluto LNG terminal in Western Australia.

"After doing everything possible to tighten belts this year, Australian operators will open their wallets and start spending," said Wood Mackenzie senior analyst Daniel Toleman. "The backlog of FIDs will begin to clear as a fresh round of projects are sanctioned. But for this to occur, there has to be continuing improvement in the macro-environment and prices trending up." Last year marked a record increase in global LNG output, driven primarily by new liquefaction trains and supply ramp-ups in Australia, Russia, and the United States, according to the International Group of Liquefied Natural Gas Importers.

## Conservation Council challenges gas projects in Australia

(Australian Financial Review; Dec. 21) - Woodside Petroleum is facing a drawn-out legal battle over its A$43 billion (US$32.6 billion) LNG expansion plans, with a leading green group criticizing the company's carbon emissions. The Conservation Council of Western Australia is dragging Woodside and the state government into court in a bid to overturn environmental approvals for Woodside's Burrup Hub LNG expansion.

The Conservation Council is alleging there were flaws and shortcuts in approvals for Woodside to process more gas from the proposed Scarborough and Browse Basin offshore fields at the company's existing onshore LNG facilities. The legal battle, likely to drag well into 2021, comes at a crucial time for Woodside and with fossil fuel projects around the world facing court challenges and investor resistance.

Woodside said the challenge comes almost 18 months after environmental approvals to process gas at its North West Shelf and Pluto LNG facilities. CEO Peter Coleman accused the council of quoting "highly misleading" emission figures. Woodside is targeting an investment call on its A$16 billion Scarborough project in the second half of 2021. It is also when Woodside is due to make a call on it plan to build a second LNG production train at its Pluto plant near Karratha. The company has pushed back an investment decision on the US$25 billion Browse project to sometime from 2023.

## Norway's supreme court rejects constitutional challenge to leases

(Deutsche Welle; Germany; Dec. 22) - Norway's Supreme Court on Dec. 22 approved government plans for oil exploration in the Barents Sea off the country's northern coast, rejecting a lawsuit by environmental groups. The groups, including Greenpeace, had claimed the oil licenses breached an article in the Norwegian constitution which guarantees the right to a healthy and viable environment. "The Supreme Court is rejecting the appeal," Chief Justice Toril Marie Oeie said as she announced the verdict.

The Nature and Youth advocacy group denounced the ruling in a tweet: "This means today's youth lacks fundamental legal protection from environmental damage jeopardizing our future. ... This is shocking and we are furious." The verdict upheld rulings made by two lower courts, dismissing the arguments by Greenpeace and the Nature and Youth group that a 2015-2016 oil licensing round violated the constitution. While the case was specifically about 10 exploration licenses, the campaigners had hoped their appeal would set a precedent, limiting the oil industry's Arctic expansion.

The environmental groups sued the Norwegian state in 2016, saying the "Norwegian government must be held accountable." The Grandparents Climate Campaign and Friends of the Earth Norway subsequently joined the case. Norway is western Europe's top oil and gas producer, with a daily output of around 4 million barrels of oil equivalent.

The lawsuit was part of an emerging branch of environmental law, where plaintiffs seek to use a country's founding principles to make the case for cutting emissions.

## [Legal challenge fails against oil drilling near London airport]

(Bloomberg; Dec. 22) - An activist's effort to block oil drilling near London's Gatwick Airport on the grounds that it would worsen climate change was rejected. A High Court judge dismissed the legal challenge from Sarah Finch, supported by the Weald Action Group, to the development of the Horse Hill field, the venture's main investor U.K. Oil & Gas said Dec. 22. While the judgment was a victory for the industry, climate-based suits against oil and gas producers are proliferating across western Europe.

Finch was attempting to overturn Surrey County Council's approval of the Horse Hill development, arguing that it failed to consider the impact of the indirect greenhouse gas emissions from the oil that would be produced from the field. The court concluded that the council followed the proper process, according to the statement from U.K. Oil & Gas. The lawsuit highlighted the tensions between the U.K.'s efforts to achieve net-zero greenhouse gas emissions by 2050, and its status as a significant oil and gas producer.

The Horse Hill discovery has been controversial since it was announced in 2015. Most of the country's oil and gas resources are far offshore in the North Sea, but this particular field lies in densely populated southeast England. U.K. Oil & Gas argues that pumping oil and gas responsibly in the country would be less carbon-intensive that importing it from elsewhere. "This is a victory for law and common sense," Stephen Sanderson, the company's chief executive officer, said in a statement.

## [New Mexico aerial survey finds increase in emissions from drill sites]

(KRQE TV; Albuquerque, NM; Dec. 21) - The U.S. Environmental Protection Agency and New Mexico's Environment Department are sounding the alarm about an increase in pollutants released in the air near oil and gas sites in the state. The state said these air pollutants could make it harder for people to breathe — especially in a pandemic that affects our lungs — and they are calling on companies to clean up their mess.

Inspection crews flew over nearly 10,000 oil and gas drilling sites in southeastern and northwestern New Mexico. "We actually have this infrared camera that can see emissions that the naked eye can't see," said New Mexico Environment Department Secretary James Kenney. The state and EPA uncovered the emissions, which look like black smoke in infrared escaping from hundreds of oil and gas sites. It's methane and volatile organic compounds (VOCs) leaking from equipment, storage tanks, and flares.

“Those VOCs contribute to smog which in turn cause things like asthma and pulmonary hardships on people,” Kenney said. The state is calling for companies that own these sites to fix their leaks. “They figured out how to get gas and oil out of the ground, that takes a lot of engineering and science,” said Kenney. “It doesn’t take that much more engineering and science to keep what you take out of the ground in pipelines.” The state is currently drafting new proposals to reduce emissions.

## Report calls on China to limit refinery capacity to help cap emissions

(Reuters; Dec. 21) - China will need refining capacity controls and bans on plastics to reach peak crude oil consumption by 2025 if it is to cap its total carbon emissions before 2030, a research report said Dec. 21. The country needs to phase out its outdated refineries and optimize the structure of refined oil products, the 2020 China Oil Cap report said. The report was commissioned by the U.S.-based Natural Resources Defense Council and Development Research Center (DRC) of China’s State Council.

The report forecast China will add about 1 billion barrels of annual refining capacity in the next five years from mega-sized integrated refining complexes, while shutting down about half as much from small refineries in the smog-prone north and east. “Coal consumption in China reached a peak in 2013 and has plateaued since then. However, the efforts of carbon reduction from coal are offset by the increase from oil and gas sectors,” Yang Fuqiang, a contributor to the report, said.

Policies of restricting and prohibiting the use of certain plastic products, such as plastic mulch used in agricultural sectors, should be also launched as soon as possible, the report said. “The impact of (an) oil consumption cap on China’s economic growth is expected to be very limited,” said Xu Zhaoyuan, a deputy director general at DRC, adding that Beijing should issue a total fossil fuel consumption target quickly.

## U.S. LNG cargo will be first at Croatia’s new import terminal

(Bloomberg; Dec. 21) - Croatia will receive a liquefied natural gas cargo from the U.S. as the first at its new import terminal, easing its dependence on fuel from Russia. The LNG carrier Tristar Ruby, which loaded at the Cove Point plant in Maryland, is headed for Croatia’s terminal on the Adriatic island of Krk, according to ship-tracking data on Bloomberg. The ship is scheduled to arrive Jan. 1, the terminal’s expected start-up date.

Hrvoje Krhen, managing director of LNG Croatia, confirmed that the ship will deliver the new terminal’s first cargo Jan. 1. A commissioning cargo on board the floating storage and regasification vessel LNG Croatia arrived from Sagunto, Spain, on Dec. 1. That vessel is in place and will be used as the import facility, part of a trend toward nations using floating solutions for a quicker and cheaper way to enter the LNG business. The terminal will have an annual capacity of about 2 million tonnes of LNG, almost 100 billion cubic feet of natural gas, equivalent to the country's annual usage. It was built as part of a push across Europe to diversify away from reliance on Russian gas.

## Private company starts work on LNG import terminal in China

(Reuters; Dec. 21) - Private firm Huaying Natural Gas has started work on a liquefied natural gas terminal with annual receiving capacity of 6 million tonnes in southern China, making it the largest privately owned LNG terminal in the country. Located in the port city Chaozhou in Guangdong province, the project involves a first-phase investment of 8 billion yuan (US$1.22 billion) and is expected to start up in 2023, according to state-backed China News and Chaozhou city government-backed Chaozhou News.

According to Huaying, it also plans to invest 4 billion yuan to build some ancillary facilities at the terminal and 2.3 billion yuan for an LNG carrier in its next step. Three gas storage tanks will be built alongside the first stage of the Chaozhou project, and an additional four tanks are planned for the second phase.

The Chaozhou terminal will add to the seven LNG terminals already operating in Guangdong province and two projects that are under construction. China has been promoting consumption of natural gas, seen as a bridge of energy transition from coal to renewables, as part of Beijing's campaign to battle air pollution and climate change.

## New pipeline allows Finland to cut Russian gas imports

(Reuters; Dec. 22) - Gazprom has lost a third of its Finnish gas market share after a new pipeline made it possible to import liquefied natural gas through the Baltic States, data from Gazprom and Estonian grid operator Elering showed. The Balticconnector pipeline, which opened early this year, links Finland and Estonia. In the first nine months, about 20 billion cubic feet of gas was exported to Finland by the pipeline, Elering reported.

Meanwhile, gas exports from Russia to Finland over same period dropped 35% from 60 bcf January-September in 2019, Gazprom's data showed. Most of the gas for Finland through the new pipeline came from the only large-scale LNG terminal in the Baltic, in Lithuania, with capacity of more than 130 bcf a year. Gas prices between Finland and the Baltic states of Estonia, Latvia, and Lithuania vary due to their access to the global LNG market, ability to store gas in Latvia and different Russian gas-supply contracts.

Haroldas Nauseda, CEO of Lithuanian state-controlled gas trader Ignitis, told Reuters: "In 2019, gas in Finland cost about 7 euros (US$8.50) per megawatt hour more than in

Lithuania, a difference of 150 million euros for the full year. Today there's little difference left." Nauseda said that during the cold winter months the Balticconnector pipeline is unable to satisfy demand and prices in Finland go up. Gazprom is also facing competition in other parts of Europe from LNG imports, including from the U.S.

## Cold weather, industrial demand forces China to limit power supplies

(Bloomberg; Dec. 22) - China is limiting power supplies in some provinces as cold weather and the country's industrial recovery boost demand. Power supplies are being cut to some industrial and commercial customers in Hunan and Jiangxi provinces, where demand has jumped by at least 18% over the previous year, Zhao Chenxi, an official with the National Development and Reform Commission said at a Dec. 21 press conference. Residential supplies haven't been affected.

The outages are coming amid soaring costs for coal and natural gas in the world's biggest energy consuming market. The economic recovery from the pandemic has boosted demand from factories, while a La Nina weather pattern is bringing colder-than-normal temperatures to the region. Several other regions, including the cities of Beijing and Chongqing, also face tight electrical supplies after freezing temperatures caused grid problems that require maintenance, State Grid Corp. of China said in a statement.

In the long term, China has emerged as the global leader in clean-power investment after it spent $127 billion in renewable energy last year as it seeks to ease its reliance on coal and reduce smog in cities, according to a report jointly published by the U.N. and Bloomberg New Energy Finance in April.

## Shell sells part of LNG project in Australia to fund manager

(Reuters; Dec. 20) – Shell agreed to sell a minority stake at a liquefied natural gas export project in Australia to Global Infrastructure Partners for $2.5 billion. The oil major will sell a 26.25% interest in the Queensland Curtis LNG common facilities in a deal that is expected to be completed in the first half of 2021, the company said Dec. 21. The common facilities are currently 100% owned by Shell and include LNG storage tanks, jetties and infrastructure that service the 7-year-old LNG export terminal.

Shell will remain the majority owner and operator of the LNG plant, with an annual output capacity of 8.5 million tonnes. China's CNOOC has a 50% equity stake in one of the plant's two production trains, while Tokyo Gas holds a 2.5% equity in the other. GIP is an infrastructure-focused fund manager with $71 billion in assets, according to its website. The deal comes as Shell targets annual divestment of $4 billion of assets in a bid to shore up its balance sheets. Reducing its debt will help Shell meet its pledge to boost dividends, which it cut earlier in the year for the first time since World War II.