# Oil and Gas News Briefs
# Compiled by Larry Persily
# December 3, 2020

## OPEC+ close to agreement for small production boost

(The Wall Street Journal; Dec. 3) - The Organization of the Petroleum Exporting Countries and its allies are closing in on an agreement to modestly boost their collective oil output by as much as 500,000 barrels a day starting next month — about 0.5% of world production — sources said. The deal would mark a compromise among some of the world's biggest oil producers as they meet later today (Dec. 3) to formalize a deal.

The compromise bridges differences between producing nations whether the time is right to start rolling back cuts OPEC+ agreed to earlier in the year in an effort to stabilize crashing prices. Earlier this week OPEC was leaning toward recommending keeping existing production cuts in place for as much as three more months, amid worries that a resurgence of COVID-19 infections could hurt global oil demand, according to people familiar with their deliberations. That ran up against opposition from members who want to start pumping again as oil prices begin to recover. That view is shared by Russia.

The sanctioning of a modest production increase would represent a middle ground between a Saudi plan to extend curbs for three months and the group's original plan to boost output by 2 million barrels a day in January. The plan under discussion calls for an increase of no more than 500,000 barrels a day in January, split up proportionally among producers, and would be followed by further hikes in subsequent months, these people said. The deal could still fall apart, according to a person familiar with the discussions with mistrust between the two sides high after this week's standoff.

## Noncompliance among OPEC+ delays effort to reach consensus

(The Wall Street Journal; Dec. 1) - OPEC has put off until later this week a decision about whether to extend oil output cuts, rolling the decision into Thursday (Dec. 3) when the cartel plans to meet with Russian-led producers. The Organization of the Petroleum Exporting Countries will meet then with Russia and others that are part of a wider group called OPEC+ to hammer out a decision on production targets for January.

OPEC had planned to reach consensus inside the cartel on Monday (Nov. 30), but held off on endorsing a deal amid still lingering differences between Persian Gulf producers, such as Saudi Arabia and the United Arab Emirates, and Russia over noncompliance with earlier cuts according to people familiar with the debate. A key hurdle to a pact remains how to deal with past lack of compliance by some countries. Saudi Arabia, the

U.A.E. and others in OPEC insist that overproducers, including Russia, Nigeria, and Iraq, cut their output more in the first quarter, to make up the difference, delegates said.

Russia pumped 430,000 barrels a day more than it agreed to for the five months ended Sept. 30, according to an internal OPEC assessment. Moscow doesn't see any need to cut its output and would favor a slight increase, people familiar with the discussions said. OPEC+ members are working under a plan negotiated earlier this year to hold back 7.7 million barrels per day in production. That deal calls for easing up the limitations to 5.7 million barrels a day in January — unless OPEC+ agrees to a change.

## It's been a miserable year for the oil and gas industry

(The Wall Street Journal; Nov. 30) - Oil prices briefly went negative. ExxonMobil was booted from the Dow Jones Industrial Average. Pioneering fracker Chesapeake Energy succumbed to bankruptcy. The pandemic hit the energy industry harder than any other major segment of the U.S. economy in 2020. While crude prices have staged a rally in recent weeks, the sector is still going through one of the most brutal years in its history.

Producers scrambled to shut in wells and halve investments. Thousands of oil workers lost their jobs. Dozens of companies sought bankruptcy protection from creditors, while others sold themselves for little more than their diminished market value. Oil-and-gas companies collectively lost more market value, as a percentage, from the beginning of the year than any other major sector, including commercial airlines and hotels.

Even after the recent rally, the collective market capitalization of the 25 largest U.S. oil-and-gas companies has dropped about 32% since the end of last year, to about $574 billion, according to data from S&P Global Market Intelligence. That is down from $1.17 trillion at the end of 2013, close to the peak of the decade's oil boom. This year, 43 North American oil-and-gas producers filed for bankruptcy through October, in cases involving $53.9 billion in total debt, according to the law firm Haynes & Boone.

## Exxon will write down billions, cut spending, pull back on gas

(The Wall Street Journal; Nov. 30) - ExxonMobil is retreating from a plan to increase spending to boost its oil and gas production by 2025 and preparing to slash the book value of its assets by up to $20 billion, as the struggling company reassesses its next decade. The Texas-based oil giant, which has lost more than $2.3 billion over the first three quarters of this year after the coronavirus wreaked havoc on fossil-fuel demand and prices, released a reduced spending outlook Nov. 30 for the next five years.

It now plans to spend $19 billion or less next year and $20 billion to $25 billion a year between 2022 and 2025. It had previously planned to spend more than $30 billion a year in capital expenditures through 2025. Exxon also said it would stop investing in certain natural gas assets and telegraphed a massive write-down of between $17 billion and $20 billion to come in the fourth quarter. The primary projects from which Exxon has decided to withhold investment are dry-gas assets in the U.S. and Canada as well as properties in Argentina.

The cuts are a course correction for CEO Darren Woods, who laid out a plan in 2018 to spend $230 billion to double profits and pump an additional one million barrels of oil and gas a day by the middle of the 2020s. That plan proved ill-timed, especially after the pandemic caused oil prices to plummet this spring. Exxon said it will now place priority on investing in Guyana, where it made one of the largest oil discoveries of this century, and in the Permian Basin in West Texas and New Mexico, the largest U.S. oil field. The company also said it will focus on oil discoveries in Brazil and on its chemical business.

## World's oil and gas majors total $80 billion in asset write-downs

(Reuters; Dec. 1) - The world's top energy companies have slashed the value of their oil and gas assets by about $80 billion in recent months after lowering the long-term view for energy prices in the wake of the coronavirus pandemic and energy transition. ExxonMobil said Nov. 30 it would write down the value of natural gas properties by $17 billion to $20 billion, its biggest impairment ever following the sharp drop in prices this year. It follows similar steps by rivals including Shell, BP, and Chevron since late 2019.

The so-called oil majors are "acknowledging overly optimistic commodity price views of yesteryear," said Bernstein analyst Oswald Clint. Following the impairments, companies will focus on the parts of the business that are able to withstand the lowest oil and gas prices, Clint said. "Balance sheets now reflect the lowest portfolio break-evens in two decades and therefore the most resilient to future commodity price shocks."

The value of the oil majors plummeted in 2020 after energy demand collapsed due to the pandemic. The shares of Exxon, Shell, and BP have lost over 45% so far this year, more than benchmark Brent oil prices that have lost around 27% and stand today near $48 a barrel. The impairments made by the European majors also came after they lowered their long-term oil-price forecasts as they prepare to increasingly switch to renewable energy in the coming decades to reduce carbon emissions to net zero.

## U.K. public pension funds lost $2.66 billion on oil company shares

(Financial Times; London; Nov. 28) - The value of oil company shares owned by U.K. public pension funds has fallen by £2 billion (US$2.66 billion) in less than four years as pressure mounts on retirement plans to withdraw their support from environmentally damaging fossil-fuel producers. Pension funds across the world have made moves to adjust their portfolios for investment risks arising from climate change, but divestment from oil companies remains rare, in spite of growing evidence that unchecked fossil-fuel consumption is leading to global environmental damages.

The value of shares in nine leading oil companies, including BP and Shell, held by 56 local U.K. government pension funds has collapsed by half from £3.6 billion (US$4.8 billion) at the start of April 2017 to £1.8 billion, according to estimates compiled by environmental campaign group Platform London. The fall in value strengthens the argument for fossil-fuel divestment, the group said.

"If council pension funds are sincere about tackling the climate emergency, and safeguarding their members' interests, the first step they must take is to … divest from stranded oil and gas stocks," said Robert Noyes from Platform London. The organization submitted freedom of information requests to obtain the data from all U.K. local government pension funds. It excluded those that have said they will divest or reduce their oil investments.

## First Nation pushed for three years to invest in Keystone oil line

(Reuters; Nov. 30) - TC Energy's sale of a C$1 billion (US$769 million) stake in the Keystone XL oil pipeline to a Canadian indigenous group is the result of over three years of pressure from a tiny Saskatchewan First Nation that demanded part ownership of the long-delayed line rather than short-term payments for allowing it to run through its lands. The planned investment by the group, Natural Law Energy (NLE), is billed by TC as the biggest-ever indigenous investment in an oil project, highlighting how some communities are seeking to share in the industry's profits while others oppose it.

Adding Indigenous support may help efforts by Canada and TC to convince President-elect Joe Biden not to revoke the C$8 billion Keystone XL permit when he takes office as he has promised. If they are successful, millions of dollars will flow over a generation into indigenous communities to help youth afford to attend university or pay for business investments, said Chief Alvin Francis of Nekaneet First Nation in Saskatchewan, one of five involved in NLE. "It's about making life better for all of our youth," he said.

TC proposed the project 12 years ago and the pipeline has since run into a steady series of legal and political obstacles. Nekaneet, a community of about 540 people, has never been involved in a deal of this scale, having previously developed a strip mall. It joined four other First Nations to form NLE. The coalition has attracted interest from banks in financing TC's project, given that much of its shipping capacity is already under contract, said NLE director Brian Mountain. Financing is set to close in the third quarter next year. For TC, the investment allows the company to tie up less of its own capital.

## [Minnesota approves $2.6 billion replacement Canadian oil line]

(The Associated Press; Nov. 30) - Minnesota regulators approved the final permit Nov. 30 for Enbridge's Line 3 crude oil pipeline replacement across northern Minnesota, giving the company the green light to begin construction on the $2.6 billion project. The Minnesota Pollution Control Agency granted a construction storm water permit for the project, which was the last hurdle that Calgary-based Enbridge needed to clear after years of reviews and court battles. The U.S. Army Corps of Engineers and the Minnesota Public Utilities Commission gave their final approvals last week.

The company and its supporters welcomed the decision, but opponents have vowed to keep up their fight. "Construction can now begin," an Enbridge spokeswoman said in a statement that didn't specify when that would happen. Enbridge has signaled that the start could be imminent. The company notified landowners along the route by letters earlier in the month that it expected construction to "start on approximately November 30." The company has previously said it expected the work to take about nine months.

Opponents say the project threatens spills in pristine waters where Native Americans harvest wild rice and that Canada oil sands production would aggravate climate change. Enbridge said replacing the deteriorating pipeline, which was built in the 1960s and runs at only half its original capacity, is the right decision. 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 replacement segments in Canada, North Dakota, and Wisconsin are already complete, leaving only the 337-mile stretch in Minnesota.

## [Wyoming commits $30 million CARES Act funds to oil and gas wells]

(The Associated Press; Nov. 30) - An oil and gas stimulus program in Wyoming has shown promising initial results in helping operators recover from the economic downturn caused in part by the pandemic, officials said. Gov. Mark Gordon created the Wyoming Energy Rebound Program to give companies money needed to complete specific projects placed on hold because of the pandemic, including plugging and abandoning wells and drilling uncompleted wells, The Casper Star-Tribune reported.

The Republican governor announced earlier this month that he would dedicate $15 million in federal coronavirus relief funds (CARES Act) to create the program. He later doubled the amount to $30 million in response to high demand. The Wyoming Business Council said the program would cover the expenses of 292 oil and gas projects and would create about 5,500 jobs over the next year.

The program will fund 18 drilled but uncompleted wells, 131 recompletions, and the plugging and abandonment of 143 wells. Uncompleted wells have yet to have oil and gas extracted from them. Recompleting takes place when a well has been drilled and completed, but some oil can still be extracted using other recovery methods.

## [Japanese lawmakers propose fossil fuels at under 50% of power mix]

(Reuters; Dec. 2) - Fossil fuels should account for less than half of Japan's mix of power sources in 2030, a group of ruling party lawmakers proposed on Dec. 2 as Prime Minister Yoshihide Suga aims to cut the nation's greenhouse gas emissions to net zero by 2050. That would be sharply down from the 75.8% that fossil fuels such as coal and gas represented in the power mix in the year ended March 2020. The government's current energy policy set in 2018 targets fossil fuel to contribute 56% of power in 2030.

The group, which has about 100 Liberal Democratic Party lawmakers as members and Suga as adviser, plans to submit the proposal to the government by the end of the year. "In order to surely achieve carbon neutral by 2050 ... it is necessary to make the ratio of non-fossil fuel in the power source mix 50% or more in 2030," the draft proposal said.

Masahiko Shibayama, head of the group and acting secretary general of the party, said renewable energy such as solar and wind power would likely account for close to 50% of the energy mix by 2030. "It is still unclear how much progress will be made in the resumption of nuclear power plants by 2030. ... Given the situation, I believe the ratio of renewable energy will be very close to 50%," he said. In the previous fiscal year to March, renewable energy accounted for 18% of the energy mix with nuclear at 6.2%.

## [U.S. sanctions could end Russia's plan for new gas line to Europe]

(The Wall Street Journal; Nov. 29) - For the past year U.S. officials have watched the journey of a Russian ship as it sailed from the country's Far East around Africa to the Baltic Sea. The ship — a nearly 500-foot-long pipe-layer, the Akademik Cherskiy — is the sole Russian-owned ship capable of completing an $11 billion pipeline. Nord Stream 2 is designed to carry natural gas under the Baltic from Russia to Germany, but its construction has been stalled for a year by the threat of U.S. sanctions.

As the ship neared Germany, U.S. officials readied even broader sanctions. Congress agreed this month on measures intended to thwart the ship's mission and permanently bury Nord Stream 2. Should those sanctions prevail, it would likely foil a Kremlin-backed project that the U.S. warns will expand Russia's influence in Europe. It would also mark a win for two Ukrainian officials who see the pipeline as a threat to their country and worked in Washington to quash it. The new line would allow Russia to bypass a gas-transit network in Ukraine, for which Gazprom pays Ukraine $3 billion a year in fees.

The new sanctions will be "the final nail into the coffin of this project," said Vadym Glamazdin, a government-relations official with Ukraine's national oil and gas company, Naftogaz. "When these sanctions are finally voted and become law, there will be no practical way to build this pipeline." To finish the line, the Akademik Cherskiy needs to be refitted to handle larger-diameter pipes. The new sanctions, part of a defense bill, would take effect by the end of the year and target companies that could make those modifications as well as those that would insure, test, inspect, and certify the pipeline.

## Feed gas into U.S. LNG plants sets a new record at 11.3 bcf a day

(S&P Global Platts; Dec. 1) - The United Kingdom was the top destination for U.S. LNG during November, amid market contango (higher futures prices) and Panama Canal constraints, S&P Global Platts trade-flow data shows. With U.S. feed gas to liquefaction terminals on Dec. 1 at a record 11.3 billion cubic feet per day — about 11% of U.S. gas production — all six major liquefaction facilities appear to be producing at or near capacity. Export activity is expected to continue robust through the end of the year.

Ten U.S. cargoes were delivered to the U.K. in November, followed by Brazil with nine. Seven cargoes each were delivered to India, China, and Japan, tying them for third among countries that received U.S. LNG last month, according to cFlow, Platts trade-flow software. One factor is wait times of up to more than a week for LNG tankers passing through the Panama Canal without a reservation. The Canal Authority raised daily transits to ease the backlog, though as December began constraints remained.

More liquefaction capacity will be available once construction of a sixth train at Cheniere Energy’s Sabine Pass terminal in Louisiana is complete in 2022. In addition, two new liquefaction facilities are under construction: Venture Global LNG's Calcasieu Pass in Louisiana and ExxonMobil's and Qatar Petroleum's Golden Pass plant in Texas. Calcasieu Pass is targeted to start up in 2022 and Golden Pass in 2024.

## U.S. shale producers expect higher gas prices and step up drilling

(Reuters; Nov. 29) - Higher natural gas futures prices for 2021 and a continued glut of crude oil are prodding U.S. shale firms to boost gas drilling and production. Shale producers are increasing spending on natural gas, a change from the past, amid forecasts for a 45% jump in gas prices next year compared to a 15% gain for crude prices. The shift is a reminder to the Organization of the Petroleum Exporting Countries of how U.S. shale moves quickly in response to price.

The largest U.S. shale oil producer, EOG Resources, this month said next year it will start selling natural gas from 15 new wells from a newly discovered field holding 21 trillion cubic feet of gas. Continental Resources recently shifted drilling rigs to gas from oil in Oklahoma. Apache this month said it plans to complete three Texas wells after lifting its third-quarter U.S. gas production by 15% over the second quarter and 6% over the same period last year.

“Demand has remained pretty robust. Supply has been starved for capital,” said Christopher Kalnin, CEO of Denver-based Banpu Kalnin Ventures, which last month closed a deal to acquire Devon Energy’s gas assets. Banpu Kalnin has hedged about 65% of its gas production for next year. The number of U.S. rigs drilling for gas, an indicator of future output, has climbed 13% to 77 since July. Gas prices could jump 45% to an average $2.94 per million Btu in 2021 from $2.03 this year, analysts predict.

## Russian producer tests delivery of LNG containers to China

(S&P Global Platts; Dec. 1) - Russia's Novatek has completed its first trial delivery of liquefied natural gas shipped in ISO containers to Shanghai, it said Dec. 1 as it eyes the use of intermodal containers — suitable for transportation by ship, train, or truck — for entry into Asian downstream LNG markets. Novatek, which operates the Yamal LNG plant and export terminal in Russia’s far north, made the delivery together with Japan's Saibu Gas for delivery to China's Tiger Gas under a spot-sales contract.

"It is forecast that ISO containers of LNG will exponentially increase over the upcoming decades, allowing us to diversify our customer base by including small-scale LNG consumers and entering the downstream markets in China and Japan," Novatek Deputy Chairman Lev Feodosyev said in a statement. Novatek said the LNG was delivered by sea in containers loaded aboard the ship in Japan. A 40-foot container can carry about 1 million cubic feet of gas supercooled into liquefied natural gas.

## Italian energy major strikes deal to restart LNG plant in Egypt

(Reuters; Dec. 1) - Italian energy group Eni has struck deals with Spanish gas firm Naturgy and Egyptian partners to resolve disputes over a shuttered gas plant it part owns in northern Egypt. Eni said in a statement on Dec. 1 that the new agreements would pave the way for the liquefied natural gas plant in the port city of Damietta to restart operations by the first quarter of next year. It has been closed since 2012.

An earlier deal hammered out between Eni, Naturgy, and the Egyptian government fell through in April when several conditions were not met. The new deal, which still needs the green light from European Union authorities as well as other conditions to be met, will allow Eni to increase its LNG portfolio and strengthen its gas foothold in the eastern Mediterranean. Naturgy said it will receive a series of cash payments totaling $600 million under the deal, which when completed will result in its departure from Egypt.

Eni, one of the biggest foreign oil and gas producers in Africa, discovered Egypt’s biggest-ever gas field Zohr in 2015 and has other assets in the Mediterranean. Like other majors, Eni is looking to decarbonize and sees natural gas as important in that transition. Under the Dec. 1 deal, the Damietta plant will be 50% owned by Eni, 40% by the Egyptian Natural Gas Holding Co., and 10% by the Egyptian General Petroleum Corp. Growth in Egypt's gas output has allowed the country to resume LNG exports.

## Geothermal driller hits 'gusher' in Saskatchewan

(Financial Post; Canada; Nov. 27) - A small Saskatoon-based company has drilled and fracked the world's first 90-degree horizontal well for geothermal power in a potentially landmark move that signals the arrival of a new energy source in Canada. Deep Earth Energy CEO Kirsten Marcia said there is a "big, big future for geothermal power in western Canada," as shown by the results of the deepest horizontal well ever drilled in Saskatchewan.

"We were looking for a way to explain to people that we drilled a gusher," said Marcia, a geologist who worked in the mining and petroleum industries before pioneering her geothermal business. A "gusher" is an extremely productive well that pumps substantial volumes of oil and gas. In Canada's nascent geothermal power industry, Deep Earth's "gusher" can produce steaming-hot water and brine with a temperature of 260 degrees Fahrenheit at a rate of almost 1,600 gallons per minute. Marcia said the well is capable of producing 3 megawatts of renewable electricity, enough to power 3,000 homes.

The well will form part of a larger 20-megawatt geothermal power project, planned for construction start-up in 2023 in southern Saskatchewan close to the U.S. border. Directional geothermal power wells have been drilled in California, but Marcia said those were drilled at a 75-degree angle, rather than being truly horizontal. Her company's well was drilled down 11,300 feet before turning at a sharp 90-degree angle and drilling through sedimentary rock along a 6,500-foot lateral route.

## California utilities will develop program to produce 'green hydrogen'

(Reuters; Nov. 24) – San Diego-based Sempra Energy said Nov. 23 that two of its California utilities are developing a program to use surplus renewable power to produce "green hydrogen" that can be injected into the natural gas grid to help to reduce carbon emissions. Sempra said its Southern California Gas and San Diego Gas & Electric utilities are planning multiple hydrogen-blending projects throughout their territories. Green hydrogen is produced with electricity from renewable energy, whereas production of blue and gray hydrogen creates carbon emissions.

"This hydrogen-blending program is a key milestone in our efforts to decarbonize our energy system, while delivering affordable and reliable energy to 22 million California customers," said Kevin Sagara, group president for Sempra Energy and chairman of both utilities. Sempra said SoCalGas expects to choose the location of the initial project in early 2021. The initial hydrogen-blend level is planned at 1% and may increase to as much as 20%. Last year SoCalGas set a goal to deliver 5% renewable natural gas, produced from organic waste, by 2022 and 20% by 2030.

## Mining giant signs with Shell for LNG to power its bulk carriers

(Sydney Morning Herald; Dec. 1) - Mining giant BHP has awarded Shell a landmark contract to supply fuel for the world's first fleet of liquefied natural gas-powered Newcastlemax bulk carriers as it seeks to lower shipping emissions. As part of its pledge to slash emissions across its supply chain, BHP this year said it would charter five vessels powered by LNG instead of bunker fuel to carry 10 million tonnes of iron ore a year from Australia to China from 2022.

Using carriers powered by LNG rather than diesel would eliminate nitrogen oxide and sulfur oxide emissions, and sharply reduce carbon dioxide emissions, according to the mining company. The Newcastlemax is the largest bulk carrier that can call on the Australian mining port of Newcastle. BHP chief commercial officer Vandita Pant said awarding the contract to Shell marked a significant step in the company's ambitions of reducing the carbon footprint across its shipping supply chain.

The contract comes as the resources industry faces pressure to expand its carbon-reduction ambitions to take responsibility for emissions caused by the transport and the end-use of their resources around the world, known as "Scope 3" emissions. BHP earlier this year became the first major resources company to commit to Scope 3 targets, aiming for a 30% reduction in the emissions by customers that purchase their products, as well as a 40% cut across its chartered shipping.

## U.K. oil company will put exploration aside and focus on production

(Reuters; Nov. 24) - Britain’s Tullow Oil will commit 90% of its investments in coming years on its producing offshore oil fields in West Africa and put exploration on the back burner to reduce debt. Tullow, which was set up in the 1980s produce oil and gas in Africa, has historically focused on exploring for new discoveries, but the oil-price collapse this year has forced the oil and gas industry to slash its exploration budget.

Tullow, with a market capitalization of $560 million as of Nov. 24 and $2.4 billion in net debt, said it expects to generate $7 billion of operating cash flow in the next 10 years. Tullow’s stock is down more than 40% so far this year. “The plan focuses our capital on a deep portfolio of short-cycle, high-return opportunities within our current producing asset base, and will ensure that Tullow can meet its financial obligations,” Rahul Dhir, the new chief executive, said in a statement on Tullow’s Capital Markets Day.