Oil and Gas News Briefs
Compiled by Larry Persily
December 7, 2020

Oakland joins other California cities in banning new gas hook-ups

(Easy Bay Times; CA; Dec. 2) – Oakland has joined dozens of California cities in passing an ordinance to ban gas stoves and heaters in new buildings yet to be constructed throughout the city. The city council unanimously decided Dec. 1 to prohibit newly constructed buildings — both residential and commercial — from connecting to natural gas or propane. The ordinance does not apply to existing buildings and any associated renovations or additions. Neither does it affect attached accessory dwelling units.

Although the law requires new buildings have all-electric power sources, it does allow developers to apply for waivers if they believe that isn't feasible. "Oakland cannot meet its climate goals without shifting quickly away from natural gas use, and my legislation will put Oakland at the forefront of efforts statewide," Council Member Dan Kalb, who was the lead author of the ordinance, said in a written statement. The ordinance has been in the works for more than a year, Kalb said. The new law will take effect mid-December.

Also on Dec. 1, San Jose approved a natural gas ban in new commercial and high-rise residential buildings, expanding an existing ordinance barring gas in new houses, detached accessory dwellings and low-rise multifamily buildings up to three stories. San Francisco recently approved a gas ban for all new construction, and Berkeley became the first city in the country to prohibit gas when it passed an ordinance in the summer of 2019.

Denmark moves to phase out oil and gas production by 2050

(The Washington Post; Dec. 4) - Denmark on Dec. 4 became the first major oil-producing nation to announce an end to state-approved exploration in the North Sea, with the aim of phasing out all oil and gas production by 2050. The decision was applauded by some environmental activists with Greenpeace celebrating it as a "watershed moment," although other groups had hoped for a faster timeline.

The new rules mean companies will be barred from receiving new licenses to search for and extract oil and gas resources. Previously issued licenses will remain valid to 2050. Denmark is the European Union's top oil producer but is under mounting pressure as the EU aims to become carbon-neutral within the next 30 years. "It's a historic decision for Denmark," said Dan Jorgensen, the Danish climate and energy minister. "It's a tough decision, it's an expensive decision, but it's the right decision," he said.

It “will cost taxpayer money” but is crucial to stay “trustworthy” as Denmark seeks to implement the EU’s 2050 goal by curbing carbon dioxide emissions and offsetting those emissions that are absolutely necessary, he said. The move will lead to an estimated loss of $2.1 billion for a country with a gross domestic product of $348 billion last year.

The announcement marks the final chapter in a five-decade-long era in which oil and gas revenue helped Danish governments turn the country into one of the world’s richest and most generous welfare states. The country has earned more than $88 billion in total revenue from the North Sea since 1972. Denmark’s North Sea oil and gas output is far exceeded by the production of Norway and Britain, both outside the EU.

UAE’s drive to boost oil production could get in the way for OPEC

(Bloomberg; Dec. 5) - Just days before a high-stakes OPEC meeting to support an oil market ravaged by coronavirus, the United Arab Emirates told the world it planned to spend $122 billion to boost production capacity. That set the stage for a standoff at the meeting. A compromise was struck but ambitious plans to maximize the UAE’s energy wealth may keep stirring tension — in particular with its largest neighbor, Saudi Arabia.

The UAE’s reinvigorated pursuit of petrodollars plays into a wider shift in the dynamic between Abu Dhabi Crown Prince Sheikh Mohammed Bin Zayed and Saudi Arabia’s Crown Prince Mohammed bin Salman over who in the region holds sway on the international stage. For years, the two countries moved in lockstep on oil and foreign policy, yet they have diverged in recent months on both. The UAE is OPEC’s third-largest producer. At the heart of the UAE’s tensions with OPEC is state-run producer Abu Dhabi National Oil Co.’s plans for growth — to reach 5 million barrels per day.

It’s in that context that the UAE went as far as to signal last month it might consider a future outside OPEC. And while the deal reached on Dec. 3 allowed for a show of unity, it will come up for review in January — the drama could be replayed in 2021. “The UAE is increasingly willing to act in its own direct national interests, and where that doesn’t align with Saudi Arabia it’s confident and willing to go it alone,” said Neil Quilliam, an associate fellow in Mideast and North Africa issues at the Chatham House think tank.

OPEC+ agrees to small production boost in January; more may follow

(The New York Times; Dec. 3) - OPEC and other oil-producing nations led by Russia, trying to gauge the global economy as the coronavirus renews its rage but with vaccines on the horizon, reached a compromise on Dec. 3 to modestly increase output in January. But the talks revealed strains in the unwieldy group, known as OPEC+, which has tried to manage the oil market since 2016. The tensions could make it difficult for the producers to stay in line with export targets as the global economy recovers.

Under the agreement, members of the Organization of the Petroleum Exporting Countries along with Russia and other countries will increase production by 500,000 barrels a day in January and, potentially, by a similar amount in the following months. The increase, less than 1% of the global oil market, comes while demand is still under pressure from the impact of the coronavirus pandemic. The group will also hold monthly meetings to sign off on further adjustments.

The deal was a compromise between countries that wanted to proceed with a much larger increase of 2 million barrels a day, which had been agreed upon at an earlier meeting, and others, led by Saudi Arabia, that preferred to maintain current production cuts of 7.7 million barrels a day given the uncertainties of the pandemic. Reaching a deal was surprisingly difficult. The meeting had been delayed for two days while officials struggled to reach a consensus. “As prices rise, the willingness to restrain supplies withers,” said Bhushan Bahree, an executive director at IHS Markit, a research firm.

Analysts see oil-producing nations battling for market share in Asia

(Bloomberg; Dec. 4) - A battle for oil market share in Asia may be coming to a head as the world’s largest crude producers prepare for peak global demand, according to some analysts. Strong demand out of Asia has provided one of the few bright spots for an otherwise dreary 2020 for oil consumption as governments worldwide impose tougher restrictions to curb the spread of coronavirus ahead of a widespread vaccine rollout.

But in the wake of fresh warnings about the end of oil-demand growth, some analysts see a struggle brewing between key exporters like the U.S. and the OPEC+ alliance to gain market share in Asia before it’s too late. “It could be viewed as ‘now or never’ for large oil-exporting nations such as Saudi Arabia and Russia,” Ryan Fitzmaurice, commodities strategist at Rabobank, wrote in a report. “China’s demand for oil has never been stronger, but that window could be closing fast.”

As the pandemic has brought about a historic slump in crude demand, several majors have predicted peak demand happening within the decade, and BP said consumption may never recover to levels seen before the coronavirus crisis. Meanwhile, the U.S. has made inroads in Asia’s oil market at the expense of OPEC+, Fitzmaurice wrote, with the U.S. growing market share in China following a trade agreement. OPEC+ can’t afford permanent market-share losses this decade with demand growth likely to peak by 2029 on the back of rising electric vehicle sales, Bank of America Global Research said.

[Chevron cuts capital spending to less than half 2014 levels]

(Bloomberg; Dec. 3) - Chevron has followed ExxonMobil in cutting long-term capital spending, responding to this year's slump in oil and expectations that prices won't rebound any time soon. Chevron's capital and exploration budget will be $14 billion to $16 billion annually from 2022 to 2025, according to a statement Dec. 3, down 27% from the mid-point of its previous forecast. The revision reflects 2020's savage drop in crude, which has led the industry to make deep cuts to production, jobs and investment.

While oil has rebounded from the worst of its slump, prices remain below $50 a barrel, and the pandemic continues to weigh on global demand for petroleum. European rivals Shell and BP have used the crisis to accelerate their pivot toward low-carbon fuels. Although U.S. titans remain committed to fossil fuels, large budget reductions mean less future investment in traditional oil and gas. Chevron's annual budgets for the next five years are less than half the level of 2014, when crude sold for more than $100 a barrel.

Chevron's plan illustrates evolving priorities. Spending at its $45 billion Tengiz oil project in Kazakhstan, which has gone massively over budget, is expected to decline, while spending will rise in the Permian Basin and Gulf of Mexico. Chevron's announcement comes three days after ExxonMobil said it too will reduce in capital spending, to $25 billion a year through 2025, a $10 billion reduction from its pre-pandemic target.

[Exxon doing all it can to preserve stock dividend]

(Houston Chronicle; Dec. 2) - ExxonMobil is pulling out all the stops to preserve its dividend in the face of the worst oil downturn in decades. The major is laying off 15% of its global workforce. It has stopped contributing to employee retirement accounts and cut 15% of its operating expenses. This week, Exxon said it will further cut capital spending over the next five years to the lowest in more than a decade and write down the value of gas assets by as much as $20 billion, the largest impairment in its history.

"Exxon understands that a large portion of its shareholders hold that stock for the dividend," said Jason Gabelman, a Cowen analyst covering Exxon. "They could have cut the dividend to prioritize growth, or cut growth to prioritize the dividend. They did the latter." Exxon's $15-billion-a-year dividend is one of the highest on Wall Street, even as investors have soured on the oil and gas industry. Energy is the worst-performing sector in the U.S. stock market following years of middling performance.

Exxon, which has grown its dividend for more than three decades, counts about 70% of its shareholders as retail investors who have come to expect the regular payouts. "The investor sets come to view that dividend as a source of stability in their income, and that's something we take really, really seriously," Neil Chapman, Exxon's senior vice president, said in August. If Exxon strays from its dividend, it could spell more losses for its stock, which was a pummeled after oil prices plunged during the global coronavirus pandemic. Exxon's market value has fallen by nearly half since the start of the year.

U.S. blacklists one of China's biggest state-run oil and gas companies

(S&P Global Platts; Dec. 4) - The blacklisting of state-run China National Offshore Oil Corp. by the U.S. government on Dec. 3 has raised the stakes for China's oil and gas companies amid worsening trade and diplomatic relations. CNOOC is China's largest LNG importer and the national oil company with the highest percentage of its portfolio located overseas, often in partnership with international oil companies.

The blacklist, aimed at Chinese companies with links to the country's military, is also the first time one of China's big three national oil companies has been directly targeted — the other two being PetroChina and Sinopec. So far, the national companies have either been on the receiving end of the U.S.-China trade war that disrupted trade flows for oil and gas, or were overlooked in earlier blacklists that named smaller energy companies.

CNOOC's blacklisting was promulgated by an Executive Order from the White House that primarily bars U.S. entities and individuals from making investments in securities issued by CNOOC effective Jan. 11, with a deadline of Nov. 21, 2021, to dispose of the assets. There is no immediate impact on trade flows or U.S. LNG cargoes currently being imported by CNOOC. But the risk of China's national oil companies ensnared in U.S. sanctions should geopolitical relations deteriorate further cannot be ruled out.

Over October-November, more than half of the roughly 20 U.S. LNG cargoes delivered to China were imported by CNOOC, and the two LNG cargoes currently on route from Sabine Pass, Louisiana, to China are also for CNOOC, vessel tracking data showed.

China starts up second section of Russian gas pipeline

(Argus Media; Dec. 3) - China has started operations of the second section of its gas pipeline link to Russia, boosting its supplies through the Power of Siberia pipeline, state-owned operator PipeChina said. Construction of the 685-mile section of the pipeline started in July 2019. It was originally scheduled to be completed in October, but the timeline was pushed back to the end of this year because of COVID-19.

The second, mid-section of the pipeline starts from Changling in north China's Jilin province and crosses Inner Mongolia, Liaoning, and Hebei provinces to end in the northeast port city of Tianjin. It will take Russian gas to the existing Shaanxi-Beijing pipeline network in northeast and northern China and connect to liquefied natural gas storage terminals at Dalian and Tangshan.

The new section will increase the pipeline's transmission capacity to almost 1 billion cubic feet per day, increasing gas supply in the Beijing-Tianjin-Hebei region, PipeChina said. China imported 110 bcf of gas through the line in January-October, according to customs data. Chinese state-owned energy company CNPC has a take-or-pay contract with Russia's state-controlled Gazprom for a minimum of 150 bcf this year through the Power of Siberia line. Deliveries are scheduled to rise to 350 bcf a year in January 2021, then ramp up to almost four times that volume for 20 years starting in 2025.

Novatek will start up additional production at Yamal LNG early 2021

(S&P Global Platts; Dec. 3) - Russian LNG exporter Novatek expects to start producing liquefied natural gas from the fourth train of its Yamal Arctic project in the first quarter of 2021, CFO Mark Gyetvay said Dec. 3. The company had hoped to bring the train online by the end of 2020, but Gyetvay said it was still in the "final stages" of construction. The unit is designed to produce 900,000 tonnes per year. "I expect the first production to come sometime in the first quarter of 2021," he said at the World LNG Virtual Summit.

Train 4, which was designed using Novatek's own proprietary technology, will add to the capacity already available in the project's first three trains, which totals 16.5 million tonnes per year. Cargoes sold from the fourth train will be destined for the spot market, Gyetvay said. Novatek has plans to expand its LNG export capacity to up to 70 million tonnes by 2030 as it adds new projects to its portfolio, including the Arctic LNG-2 terminal at 19.8 million tonnes per year. That plant is due to start up in 2023.

Novatek sees its low cost of production as key to its competitiveness in global LNG markets. Gyetvay said it is possible to deliver LNG into northeast Asian markets for "a little over" $3 per million Btu.

Russia sees more Arctic gas going to petrochemical production

(The Barents Observer; Norway; Dec. 2) - There are almost endless gas resources in the Russian Arctic, but ultimately demand will shrink. The country’s powerful oil and gas industry now appears to gradually grasp what could end in economic disaster for the hydrocarbon-dependent nation. Oil and gas accounts for more than half of Russia’s exports and gas alone amounts to more than $40 billion in annual revenues. A major share of that export is likely to vanish as the main importer, the European Union, succeeds in reaching its 2030 target of a 60% cut in carbon emissions.

The rapid change in international energy markets was an underlying element in a Dec. 1 meeting on the development of the petrochemical industry between President Vladimir Putin and top energy-sector representatives. The meeting was held in Tobolsk, a northern town that houses Sibur's new petrochemical plant. In the room was Novatek's Leonid Mikhelson, which is developing large LNG projects in the Arctic, and on video link was Gazprom director Aleksey Miller and several other oil and gas leaders.

"We have to more actively promote Russian petrochemical production domestically and abroad and boost efficiency and production volumes," Putin said in the meeting, adding that several major projects worth about $67 billion are under planning. He said a total of 14 new petrochemical production projects are on the table, including in the Arctic. A group has been set up by the Ministry of Energy together with energy companies to deal with planning for new gas processing and petrochemical plants, the government said.

Indian minister says LNG buyers need to break oil-pricing link

(Reuters; Dec. 3) - Asia needs flexible liquefied natural gas contracts with no links to oil prices to reflect changes to the market as demand recovers from the impact of the coronavirus pandemic, Indian Oil Minister Dharmendra Pradhan said Dec. 3. Pradhan said gas buyers and sellers need to adjust to changing market dynamics after lower spot-sales gas prices the past two years have encouraged buyers to favor short-term and spot deals instead of long-term, oil-price-linked deals.

"The LNG price determination for Asian consumers is still oil-linked, and this requires an urgent revision," Pradhan said at an energy forum event. The world's fourth-largest LNG importer, India wants to raise the share of gas in its energy mix to 15% by 2030 from the current 6.3% and is investing $60 billion by 2024 to strengthen its gas infrastructure. India's top importer, Petronet LNG, is renegotiating pricing of gas bought under long-term deals with Qatar after low spot prices made oil-linked long-term deals unattractive.

"There is greater recognition to immediately address the rigidities in its marketing structures in LNG sector," the minister said. India is doubling its natural gas pipeline grid to more than 21,000 miles and increasing annual LNG import capacity to 61 million tonnes by 2022 from the current 42 million tonnes, he said.

Administration wants to end environmental review of LNG exports

(Reuters; Dec. 3) - The Trump Administration's Energy Department on Dec. 3 issued a rule to exclude some liquefied natural gas projects from environmental reviews that have been required by U.S. law, in a show of support for the fossil fuel industry. The rule, which the Department of Energy issued in a pre-publication notice in the Federal

Register, frees LNG export and import license application reviews from including environmental assessments required under the National Environmental Policy Act.

The rule posted to the Federal Register said that because DOE lacks the authority to approve the construction or operation of LNG export facilities, it does not need to review their environmental impacts. Regardless of whether the Energy Department were to require an environmental review before granting export authorization, the construction and operation of LNG terminals would still require an environmental review by the Federal Energy Regulatory Commission, which regulates onshore LNG plants.

The rule is expected to be overturned by President-elect Joe Biden’s administration and challenged by environmental groups in the courts, analysts said. “The new rule could be rescinded as part of early executive actions on climate” by Biden, who will be inaugurated on Jan. 20, analysts at ClearView Energy Partners said in a note to clients. The Energy Department said in the notice that the rule would “save time and expense in the NEPA compliance process.” The rule is effective 30 days after Federal Register publication on Dec. 4, or a little more than two weeks before the inauguration.

Panama Canal may add more slots for LNG carrier traffic

(S&P Global Platts; Dec. 4) - The Panama Canal Authority may add additional reserved LNG transit slots in the future to address the increase in U.S. exports by the shortest route from the Gulf Coast to the key East Asia import market, the agency said Dec. 4. Delays of over a week for LNG carriers passing through without a reservation began in late October and have continued recently. Last month the Authority managed 53 LNG transits, up from 35 in October and 48 in November 2019, according to agency data.

The delays have been blamed on several factors, including fog, higher-than-average arrivals and additional safety procedures to prevent further spread of the coronavirus. Looking ahead, with U.S. LNG export activity surging and more capacity expected to come online through 2024, the Canal Authority wants to look at long-term options.

"There is potential in the next few years to increase the number of LNG vessel transits," the Canal Authority said. "We look forward to revisiting the issue in the middle of next year, to see if any variation can be allowed." The Canal Authority currently maintains two booking slots for LNG tankers per day. On some days it has been able to accommodate four vessels, depending on the transit mix and operational conditions.

More U.S. producers follow Europe’s lead on cutting emissions

(Financial Times; London; Dec. 6) – U.S. oil and gas producers have begun to follow their European rivals in setting ambitious targets on cutting their emissions amid mounting investor pressure over climate change. Pioneer Natural Resources, the biggest independent oil and gas producer in the Permian Basin, last week vowed to cut the intensity of its greenhouse gas emissions by a quarter by the end of the decade.

That followed recent announcements by rivals Occidental and ConocoPhillips that they would reduce emissions from their operations to net-zero by mid-century, marking the first such pledges by big American oil companies. U.S. producers have lagged those in Europe in making climate commitments. But these latest moves suggest growing pressure from climate-conscious investors is pushing them to follow a similar track.

Until recently U.S. shareholder pressure had largely come from religious groups, socially focused investors and a few pension funds. “The real change recently has been the very largest investors in these companies — the State Streets, the Blackrocks, the Wellingtons — are now concerned as well,” said Andrew Logan, director of oil and gas at Ceres, a nonprofit that coordinates investor action on climate. “And that to me has led to a real sea-change in the attention that companies are giving to these issues.”

Iraq plans to boost exports, hope for higher prices to help economy

(Bloomberg; Dec. 6) - Iraq will remain committed to OPEC’s decisions on oil output as it nudges crude exports higher in December. The country will export 2.8 million barrels a day this month, Oil Minister Ihsan Abdul Jabbar said Dec. 6, up from 2.7 million in November. It will start shipping a new medium grade of its flagship Basrah crude in January and try to maximize its output of light oil, he told reporters in Baghdad.

Iraq is interested in increasing prices rather than sales volumes, and several companies are bidding to buy oil in its first prepayment deal for long-term supply, he said. Baghdad is seeking a $2 billion upfront payment in exchange for a long-term contract to supply crude oil. The proposal is unusual among oil-producing nations, and it underscores the country’s financial distress and need for cash.

Jabbar’s comments were his first public remarks on oil since the Organization of Petroleum Exporting Countries and allies such as Russia agreed last week to boost output in January by 500,000 barrels a day. Iraq, OPEC’s second-biggest producer, is struggling to pay its bills with crude prices at current levels and has been chafing under its output cap. Iraq’s figures exclude sales by its semi-autonomous Kurdish region, which the government in Baghdad expects will ship 250,000 barrels a day next year.