Oil and Gas News Briefs
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Goldman Sachs voices 'concerns about the future' of OPEC+

(CNBC; Nov. 24) - The future of OPEC+ has been called into question by analysts at Goldman Sachs, as the alliance prepares to secure a new mandate on oil output limits. OPEC+, comprised of some of the world's largest crude producers, is scheduled to begin a two-day meeting Nov. 30 to discuss the next phase of its oil-production policy. The virtual gathering will likely see OPEC and its non-OPEC partners discuss whether to extend production cuts into 2021 in an effort to support prices amid weak demand.

"As another OPEC+ meeting nears, uncertainty on the group's decision is once again rising," Goldman analysts said in a research note Nov. 24. "Beyond the outcome of just another quota decision, however, there are renewed concerns about the future of the organization." Russia and other non-OPEC countries have been working with the 13-member group to prop up oil prices in recent years. The group still exerts considerable influence over world energy markets, although not as much as in the past.

Reports earlier this month that the United Arab Emirates might consider leaving OPEC has led to growing speculation. "These headlines once again call into question the future and purpose of the cartel, compounding on the brief March Saudi-Russia price war and Qatar's departure from the group last year," analysts at Goldman said. It ultimately reflects "the difficult dual mandate that the group is trying to meet: Helping rebalance the market after an unprecedented demand shock, yet achieving higher revenues and market share medium-term," the U.S. bank added.

Exxon lowers oil-price forecast by 11% to 17% for the 2020s

(The Wall Street Journal; Nov. 25) - ExxonMobil has lowered its outlook on oil prices for much of the next decade, according to internal company documents reviewed by The Wall Street Journal. As part of an internal financial-planning process conducted this fall, Exxon cut its expectations for future oil prices for each of the next seven years by 11% to 17%, according to the documents. The sizable reduction suggests the Texas oil giant expects the fallout from the coronavirus pandemic to linger for much of the next decade.

The fossil-fuel industry is also contending with increased competition from renewable-energy sources and electric vehicles, as well as the prospect of increased climate-change regulation around the world. Unlike some rivals, Exxon doesn't publish its internal views on commodity prices, which it views as proprietary. Some investors have pressured Exxon to release the forecasts, arguing that they are critical to understanding the company's plans and the future value of its assets.

In 2019, Exxon internally forecast that Brent crude, the global benchmark, would average around $62 a barrel for the next five years before increasing to $72 a barrel in 2026 and 2027, the documents state. This summer the company lowered that forecast to between $50 and $55 a barrel for the next five years before eventually topping out at $60 a barrel in 2026 and 2027, according to the documents, which were dated September. Brent oil is currently trading for about $47 a barrel after a jump in prices this week that has brought prices back to their highest levels since spring.

Canada's North Atlantic oil and gas industry faces uncertain future

(Globe and Mail; Canada; Nov. 22) - A sight so unusual appeared in Conception Bay off the southeast coast of Newfoundland this summer that it drew crowds to the shoreline and so large that it dwarfed the cliffs of nearby Bell Island. The Terra Nova, a towering, deep-sea oil rig normally anchored 220 miles in the North Atlantic, has been floating in the bay for months since Suncor Energy brought it inshore in July. It says a lot about the challenges facing Newfoundland and Labrador's oil and gas industry.

"The Terra Nova was never meant to be a tourist attraction. It's meant to be out at sea, pumping oil," said Charlene Johnson, CEO of the Newfoundland and Labrador Oil and Gas Industries Association. Like the Terra Nova, which hasn't produced oil in more than a year while its owner decides on its future, much of the province's oil and gas industry is facing uncertainty. The C$2.2 billion West White Rose extension project is on hold until at least 2022, with no construction on the massive concrete gravity structure since March as owner Husky Energy reassesses its long-term plans in the province.

Drilling on the iconic Hibernia platform, which launched the province's oil industry, has been suspended since April to save money. Just a few years ago, with oil at more than US$100 a barrel, St. John's was a boom town, with a soaring real estate market, rapidly growing population and pricey new restaurants fueled by oil executives and their expense accounts. Today the crisis is forcing a debate in Newfoundland about how much the province should stake its future on fossil fuels buried deep off its rocky shores.

The time is now, many say, for Newfoundland to reinvent itself by tapping into abundant wind, hydro and tidal energy resources. Offshore oil royalties, normally worth well more than C$1 billion annually to Newfoundland, are expected to drop by half this year.

More mergers expected in U.S. oil and gas industry

(Houston Chronicle; Nov. 23) - Mergers will continue to shrink the energy industry as the pandemic rolls into next year, giving fewer companies larger shares of U.S. oil output and threatening to further slash the workforce. By mid-2021, there will be at least six deals among oil and gas companies, including one or two mergers among majors, two to three large independents taking over smaller players, and two or three mergers of equal-size small and midsize companies, according to consulting firm Accenture.

Accenture predicts that half of the country's onshore oil will be in the hands of eight to 12 companies by the end of 2021, down from 16 to 17 now. “You can’t have 5,000 relevant players,” said Muqsit Ashraf, Accenture’s lead energy consultant. “There isn’t room for so many players.” Companies have been pairing up since crude prices tumbled from more than $100 a barrel in 2014. The pace has accelerated after the pandemic strangled demand, sent prices to historic lows and squeezed profits.

The oil industry recognizes the benefits of consolidation, Accenture analysts said. Companies need scale to produce oil profitably at low prices, and larger companies can more easily access Wall Street capital and boost their footing in top-producing oil fields to remain relevant, Ashraf said. “Consolidation fortifies these companies to withstand the onslaught of low oil prices,” he explained. But the mergers leave behind a slew of redundant positions that eventually are eliminated, Accenture said.

Kuwait does little to cope with low oil prices, faces financial crisis

(Associated Press; Nov. 23) - When Kuwait emerged from a months-long coronavirus lockdown, hundreds of Kuwaitis flocked to reopened stores, with lines clogging malls and spilling onto sidewalks. But unlike much of the world, where long lines formed for donated food, Kuwaitis were waiting to buy Cartier jewelry. The jewelry-store rush by Kuwait’s long-coddled citizens is a symptom of a looming disaster. Kuwait, one of the world’s wealthiest countries, is facing a debt crisis.

The pandemic has sent the price of oil crashing to all-time lows and pushed the petrostate toward a reckoning with its longtime largesse, just as a parliamentary election approaches in December. “COVID, low oil prices and the liquidity crisis have all come together in a perfect storm,” said Bader al-Saif, an assistant professor of history at Kuwait University. Like other Gulf sheikhdoms, Kuwait provides cushy jobs to roughly 90% of citizens on the public payroll, along with generous benefits and subsidies, from cheap electricity and gasoline to free health care and education.

This fall, the ratings agency Moody’s downgraded Kuwait for the first time in its history. The finance minister warned the government soon would not be able to pay salaries. Kuwait’s national bank said the country’s deficit could hit 40% of its gross domestic product this year. With crude oil prices just above $40 a barrel, other nearby Arab states took on debt, trimmed subsidies or introduced taxes to sustain their spending. Kuwait, however, did none of that. Its break-even oil price for this year's budget was $86 a barrel, double current crude prices, putting its finances under strain.

Iraq seeks prepayment for oil in hopes of raising $2 billion

(Bloomberg; Nov. 24) - -Iraq is seeking an upfront payment of about $2 billion in exchange for a long-term crude-supply contract, the latest sign of Baghdad's growing desperation for cash as its economy unravels. The Middle Eastern country is grappling with a crisis brought to a head by low oil prices and OPEC+ output cuts. As state coffers dwindle and school teachers go unpaid, the country risks a repeat of upheaval last year that brought down the government and saw hundreds of protesters killed.

In a letter to oil companies seen by Bloomberg News, the Iraqi government sought to mitigate its dire financial position by proposing a five-year supply contract delivering 4 million barrels a month, or about 130,000 barrels a day. The buyer would pay upfront for one year of supply, which at current prices would bring in just above $2 billion, according to Bloomberg calculations. The letter from SOMO, the Iraqi state-owned agency in charge of petroleum exports, was first reported by the Iraq Oil Report.

"SOMO, on behalf of the Ministry of Oil, has the interest to propose a long-term crude-supply deal in exchange for prepayment for a fraction of the total allocated quantity," according to the letter. It asked potential buyers to respond by Nov. 27. Cash-strapped oil producers have often relied on pre-payments to raise money, but Baghdad hasn't done so until now. In such deals, the buyer effectively becomes a lender to the country. The barrels are security, much as borrowers use homes as collateral for a mortgage.

Critics say governments are helping to finance risky gas projects

(Agence France-Presse; Nov. 16) - Energy firms are undertaking financially risky natural gas extraction projects from the Arctic to Africa made feasible by government-backed loans and guarantees, jeopardizing efforts to curb global warming, several experts said. As pressure from the public and investors to "green" their portfolios grows, and as the cost of renewable energy continues to fall, oil and gas majors are finding it harder to attract investment on new fossil fuel projects.

They are also increasingly reliant on government-backed funding — loans or insurance — several industry experts said. Eight export credit agencies awarded loans to French oil giant Total in July, when the company signed a $14.9 billion financing agreement for its liquefied natural gas project in Mozambique. The area where the project is located has been living with a jihadist insurgency since 2017 that has killed over 1,000 people.

Certain energy projects have become "very risky in general, let alone in regions with unstable politics," said Dylan Tanner from Influence Map, which monitors the energy sector. Beyond security issues, the think tank highlighted in a report last year the risk of "asset stranding" due to increasingly competitive renewable energy and tighter climate regulations. Credit export agencies use government-backed funds to shore up projects.

If the projects go sideways due to geopolitics or become obsolete as technology and environmental policy evolves, they end up costing the state, not private investors. "If there is a problem, taxpayers will pay for the damages, not the companies," said Cecile Marchand, from Friends of the Earth France. "Commercial banks would not take the risk of lending so much money on the long term without any insurance."

Colorado adopts new drilling rules that allow more local control

(Colorado Public Radio; Nov. 23) - More than 18 months after Gov. Jared Polis signed legislation to overhaul Colorado's oil and gas industry, regulators have finalized the specifics. The Colorado Oil and Gas Conservation Commission unanimously approved a sweeping set of new rules Nov. 23. The moment marks an end to a 1950s-era system designed to "foster, encourage and promote" the development of fossil fuels in Colorado. Under the new rules, the state will now work to "regulate" the industry to protect public health and the environment.

The new rules, effective Jan. 15, 2021, will affect almost every stage of the oil and gas extraction process in Colorado. The changes rework how Colorado approves any new oil and gas wells. Previous regulations largely left decisions about permitting to the commission. Under the new rules, local governments can approve projects along with state authorities. Coloradans will also have greater standing to participate in future decisions about oil and gas drilling.

State regulations also become a "floor" for local governments. While cities and counties can pass more restrictive rules, they cannot weaken the ones the state just approved. When reviewing drilling permits, state regulators will soon have to account for previous environmental impacts to nearby communities. New wells must be located to avoid any harm to aquatic habitats and critical wildlife species. Certain chemicals will no longer be allowed for hydraulic fracturing. Routine flaring or venting of gas will not be permitted.

Dozens of oil and gas companies commit to cut methane emissions

(Reuters; Nov. 23) - Dozens of oil and gas companies on Nov. 23 committed to report more accurately on and, ultimately, to reduce emissions of the potent greenhouse gas methane which is liable to leak from oil fields and pipelines. Oil majors such as BP, Shell, Eni, Equinor, and Total have signed up for the Oil and Gas Methane Partnership

(OGMP) under the umbrella of the United Nations, the European Union and non-governmental organization the Environmental Defense Fund.

Methane has over 80 times the heat-trapping potential of carbon dioxide during its first 20 years in the atmosphere, and recent satellite data analysis suggests leaks that from the oil and gas sector are much bigger than initially thought. The target aims for a 45% reduction in the industry's methane emissions by 2025, and a 60% - 75% reduction by 2030. OGMP says its 62 members represent 30% of the world's oil and gas production, but U.S. majors such as Chevron and Exxon are not involved. Nor are any Russian producers nor any national oil companies apart from the United Arab Emirates.

The OGMP comes on top of individual corporate pledges to reduce methane leaks, and the Oil and Gas Climate Initiative, which is overseen by the firms themselves and includes U.S. majors and some national oil companies. The OGMP says it differs from other initiatives in that it requires members to report methane emissions at an asset level, rather than across the whole company, and in that it covers facilities in joint ventures, even if the operator of such sites has not subscribed to OGMP.

China makes big plans for hydrogen fuel-cell vehicles

(Bloomberg; Nov. 20) - Tesla CEO Elon Musk has spent years mocking the idea of using hydrogen fuel cells rather than electric batteries to power next-generation green vehicles. "Fuel cells = fool sells," the boss of the world's top electric-car maker tweeted in June. China, the world's biggest market for electric vehicles, isn't so quick to dismiss the alternative to batteries. Officials are promoting development of hydrogen-powered cars, trucks, and buses with Beijing offering to reward cities that achieve their targets.

In a 15-year plan for new-energy vehicles released Nov. 2, China's State Council said the country will focus on building the fuel-cell supply chain and developing hydrogen-powered trucks and buses. President Xi Jinping in September set a 2030 deadline for China to begin reducing carbon emissions. China is targeting to have 1 million fuel-cell vehicles in operation by 2030, according to an energy-savings vehicle development plan drafted by authorities, despite only 2,700 such cars selling in the country last year.

The renewed interest in hydrogen could put China further ahead of the U.S. even as President-elect Joe Biden tries to promote clean-car development. In theory, fuel cells are an ideal alternative to the internal-combustion engine — their chemical reactions of hydrogen and oxygen emit no carbon. Powering vehicles with hydrogen can be expensive, though, and most of China's hydrogen supply comes from burning fossil fuels. Difficulties in storing and transporting hydrogen add to the cost. But as the supply of hydrogen generated by solar and wind power grows, the economics may improve.

India will spend big to promote LNG as transportation fuel

(Reuters; Nov. 19) - Indian companies will spend 100 billion rupees ($1.35 billion) over three years on 1,000 liquefied natural gas fueling stations along main roads and industrial corridors and in mining areas, the oil minister said Nov. 19, in a push to cut diesel consumption. Diesel, which accounts for about two-fifth of India's refined fuels consumption, is widely used by buses, trucks, and the mining sector.

"Even if the LNG vehicle segment achieves 10% market share in a fleet of 10 million trucks, it will have a positive impact on reducing emissions and substituting crude," Dharmendra Pradhan said at a foundation-laying ceremony for 50 new LNG stations. The use of LNG in heavy vehicles will cut fuel costs by 40% compared with diesel and help contain inflation, he said, urging automobile makers to look at producing LNG-compatible vehicles.

LNG is suitable for long-haul trucks and buses as its higher energy density can help vehicles travel hundreds of miles with one fill versus about 200 miles for a diesel vehicle, said V.K. Mishra, head of finance at Petronet LNG. Companies are spending billions of dollars to build gas infrastructure including pipelines and import terminals to raise the share of gas in the nation's energy mix to 15% by 2030 from the current 6.2%.

EU would not classify gas power plants as 'sustainable' investment

(Reuters; Nov. 20) - The European Commission on Nov. 20 proposed that power plants fueled by natural gas would not be classed as a sustainable investment in Europe, although plants could possibly gain a green label by burning some hydrogen. The landmark EU rules, due to be finalized this year, will force providers of financial products to disclose from the end of 2021 which investments meet climate criteria and can therefore be marketed as "sustainable".

Gaining such a label is likely to help companies tap the growing investor cash looking to profit from the region's multitrillion-euro shift to a net-zero emissions economy by 2050. In the proposed rules, in order to be classed as a sustainable investment — one that makes a "substantial" contribution to mitigating climate change — gas power plants must have life-cycle emissions below 100 grams of CO_2 equivalent per kilowatt hour.

The draft plans come despite intense lobbying from the energy sector for a more generous threshold. The rules face a four-week consultation before the Commission drafts the final version. Sean Kidney, CEO of the Climate Bonds Initiative, who along with other experts advised the Commission on the rules, said the decision on gas was "a victory of science over the political economy." He added, "The Commission has held the line." Europe's most efficient gas power plants produce more than three times the proposed emissions limit, and would need to use carbon-capture technology to comply.

European industry groups promote bio-LNG made from waste

(S&P Global Platts; Nov. 24) - A number of industry groups have made the case for the increased use of bio-LNG as a transportation fuel in Europe to help decarbonize heavy-duty transport and shipping in a "fast and cost-effective" way. In a joint paper published Nov. 23, the European Biogas Association, Gas Infrastructure Europe, NGVA Europe and SEA-LNG called on the European Union to recognize the potential for bio-LNG to meet its reduced greenhouse gas targets.

The paper comes ahead of the EU's upcoming Smart Sustainable Mobility Strategy, to be published by the European Commission in December. Bio-LNG is a sustainable version of liquefied natural gas produced by anaerobic digestion of organic matter such as food or animal waste. The industry groups said EU production of bio-LNG is set to increase tenfold by 2030 and would help reduce carbon dioxide emissions.

The EU has 53 ports where LNG bunkering is available for ships and more than 330 LNG filling stations. The group said the number of filling stations would increase in the coming years to reach 2,000 by 2030. Industry is already moving to build out bio-LNG production. Nordsol, along with partners Renewi and Shell, last week announced the start of construction of the first bio-LNG project in Amsterdam's Westpoort. Renewi, a U.K.-based recycling company, will collect organic waste throughout the Netherlands and convert it into biogas. Nordsol will turn it into bio-LNG and Shell will sell the gas.

Novatek starts ship-to-ship transfers of LNG in Russian waters

(Reuters; Nov. 23) - Russian gas producer Novatek has started ship-to-ship transfers of liquefied natural gas from its majority-owned Yamal LNG project at a site near the northern port of Murmansk, ship tracking data at Refinitiv Eikon showed Nov. 23. The company previously conducted such operations at a terminal at the Norwegian Arctic port of Honningsvag. However, Oslo has faced pressure from the U.S. to stop Novatek from using a Norwegian port with Washington arguing that such operations undercut Europe's energy diversification efforts by shoring up its reliance on Russian gas.

Novatek has said it would eventually move the operations away from Norway. It was not immediately clear if it has already stopped those operations in Norway completely. Novatek unloads the LNG from ice-class tankers, which are more costly to use, onto more conventional gas carriers. Novatek has a 50.1% stake in the Yamal LNG project on the shores of the Yamal Peninsula. French energy major Total controls 20%, while China’s CNPC and Silk Road Fund have 20% and 9.9%, respectively.

South Korea shipyard gets large order for Russian LNG carriers

(Port News; Nov. 24) – South Korea’s Samsung Heavy Industries has secured its largest order ever, and it's something of a mystery. The firm announced Nov. 23 that it has booked a $2.5 billion order for "blocks and equipment" for an unnamed buyer. It is the biggest single contract it has signed since its founding in the 1970s, and it amounts to nearly 40% of last year's total annual sales.

The nature of the product was not disclosed, but most observers believe it is associated with a Russian government-backed order for 15 ice-breaking LNG carriers at the newly rebuilt Zvezda Shipyard outside Vladivostok. As Zvezda has not built an LNG carrier before, it has contracted with Samsung for the design and for technical assistance for the first five ships in the series. The first steel was cut at the Zvezda yard Nov. 20, and delivery is scheduled for 2023-2026.

The ship charterer, Russian LNG producer Novatek, has also asked for permission from the Kremlin to order 10 more hulls in the series from a non-Russian shipbuilder. If approved, that order is expected to be worth about $3 billion, and it would likely accrue to Samsung. The new round of Zvezda/Samsung ships will provide additional capacity to serve Novatek's Arctic LNG-2 project, which is under construction near the company’s first LNG venture, the Yamal project which started up in late 2017.