Oil and Gas News Briefs
Compiled by Larry Persily
April 29, 2021

BP applies for federal authority to sell electricity at retail level

(Reuters; April 26) - BP has applied to supply U.S. residential customers with electricity generated from wind, solar, and natural gas, betting on a rapid growth in power demand as economies shift away from dirtier fossil fuels to battle climate change. BP wants to supply electricity in California, Illinois, Ohio, Pennsylvania, and Texas in its first foray into the retail power business, according to an April 20 filing with the Federal Energy Regulatory Commission seen by Reuters.

The British company has no retail energy trading business but is one of the largest North American power traders, supplying wholesale customers such as power generators and cities with gas, renewable energy and storage. A new subsidiary called BP Retail Energy would supply the power, going head-to-head with utilities that are under growing pressure from investors and governments to cut carbon emissions.

"BP Energy Retail is a retail energy marketing company that intends to sell electricity products directly to commercial and industrial customers and residential customers," the filing said. BP declined comment. The filing listed the sources of electricity generation as BP's onshore wind farms, solar power plants and its gas plant in Whiting, Indiana.

India's COVID surge could cut oil demand, disturbing global market

(Reuters; April 28) - The steep rise of COVID-19 infections in India will slash global demand for oil, leading to a sizeable glut, Norway's biggest independent energy consultancy Rystad said. The struggle in India, one of the world's largest oil consumers, will slash 575,000 barrels per day of oil liquids demand in April and 915,000 in May, disturbing the almost-balanced global oil market, according to the energy consultancy.

"As infections continue to rise and its health system is overwhelmed, India's oil demand could lose more ground going forward, making further downgrades possible, both on magnitude and duration," Louise Dickson, senior oil markets analyst at Rystad said in a note dated April 28. India's fuel consumption had risen in March for the first time in three months to its highest since December 2019, as economic activity gradually picked up.

However, coronavirus cases have surged in India, leading to curbs across the country, a move analysts say could hit fuel demand in the world's third-largest oil importer. India reported 379,257 new COVID-19 cases and 3,645 new deaths on April 29, according to health ministry data. It was the deadliest day so far for any country hit by the pandemic. The sudden and very strict localized lockdowns imposed the past few days will result in a 13% demand drop in oil demand India in April compared to March, Rystad said.

Mideast nations increasingly turn to foreign investors for capital

(Bloomberg; April 28) - Time was when the Mideast petrostates recoiled from using their crown jewels to raise money from foreign investors. No more. In the past weeks, Saudi Arabia, the United Arab Emirates, Qatar, Oman, and Kuwait have quickened multibillion-dollar plans to sell energy assets or issue bonds backed by the assets. Capping that trend, Saudi Crown Prince Mohammed bin Salman said April 27 the kingdom is in talks with a "global energy company" to sell a stake worth $20 billion in state oil firm Aramco.

The shift underscores how countries in a region that's home to almost half the world's oil are taking advantage of the recovery in prices following last year's coronavirus-triggered crash to bolster their ailing finances. The global transition to greener energy is only adding to the urgency with governments requiring fresh funds to invest in new sectors and diversify their economies. Investors are grabbing at the opportunity.

"It makes sense for these countries to sell stakes when valuations are good," said Justin Alexander, chief economist at MENA Advisors, a U.K.-based consultancy. Saudi Aramco, the world's biggest oil company, and Adnoc, which pumps almost all the UAE's oil and gas, have been the most active. Both started privatizations before the pandemic. The deals have since increased in number and sophistication — as has the focus on foreign money. Amid the flurry of activity, however, the companies have been careful to structure the transactions such that they don't lose sway over marquee assets.

Exxon retreated last year from effort to build up its trading operation

(Reuters; April 26) - ExxonMobil's effort to build an energy trading business to compete with those of European oil majors unraveled quickly last year as the firm slashed the unit's funding amid broader spending cuts, 10 people familiar with the matter told Reuters. The cuts left Exxon traders without the capital needed to take full advantage of the volatile oil market, the people said. The pandemic sent prices to historic lows before a strong rebound, creating a profit opportunity for trading operations willing to take risks.

Exxon instead systematically avoided risk by pulling most of the capital needed for speculative trades, subjecting most trades to high-level management review and limiting some traders to working only with longtime Exxon customers, according to interviews with 10 former employees and people familiar with Exxon's trading operation. Traders were restricted to mostly routine deals intended as a hedge for Exxon's more traditional crude and fuel sales rather than gambles to maximize profit, four of the people said.

The retreat came after Exxon had worked for three years to bolster its trading unit with high-level hires and new tools to help traders take more risk. The company's cautious strategy in the pandemic sparked the exodus of some of those senior-level new recruits, along with Exxon veterans, as the company downsized the department amid spending cuts, according to sources. The quick retreat of the trading desk underscores Exxon's longstanding aversion to risk, said Anish Kapadia, of Palissy Advisors. "The trading business is a risk business," he said. "That has never been one of Exxon's fortes."

COVID outbreak hits Alberta oil sands operations

(Bloomberg; April 28) - In the U.S., COVID-19 infections are shrinking by the day. Not so in the Canadian oil sands, where thousands of roughnecks have descended upon barracks in work camps and have turned the area, which accounts for more than half of America's oil imports, into a hot spot for a resurgence of the pandemic. It's the latest blow to the oil-rich province of Alberta that in the past years has struggled with two crude-market crashes, rising unemployment, plus devastating wildfires and floods.

The pandemic that's led scores of restaurants and other businesses in the area to shut in is hitting the industry that accounts for 16% of the region's economy. "It's out of control," said Allan Adam, chief of the Athabasca Chipewyan First Nation. He pegs the surge in new cases to the fly-in-fly-out nature of many jobs in the oil sands. "I am more worried about our health care system. If that collapses, then all hell breaks loose."

A slower rollout of vaccines in Canada, combined with growing outbreaks of more contagious variants, has prompted lockdowns across the country and restrictions on inter-provincial travel. A dozen oil sands production sites have been listed for outbreaks just as contractors are flying in for maintenance season. Over 2,000 COVID-19 cases have been linked to the facilities with 752 active, according to Alberta Health data.

Louisiana LNG hopeful resumes drilling for its own gas supply

(S&P Global Platts; April 27) - Tellurian has resumed drilling in Louisiana's Haynesville Shale after not starting a new gas well in 2½ years, Executive Chairman Charif Souki said April 27. The disclosure, on Tellurian's website, comes as the company recently paid off all its debt and continues to focus on securing commercial deals to finance construction of its proposed Driftwood LNG export terminal in Louisiana.

In an interview with S&P Global Platts in March, CEO Octavio Simoes said Tellurian plans to produce all the gas it will need to feed Driftwood and will not sanction the project at up to 27 million tonnes per year of LNG production until it has secured sufficient upstream reserves for the first phase of 16 million tonnes per year. Though it currently has a small acreage position in the Haynesville — 9,373 net acres and interests in 72 producing wells as of March — Tellurian is looking to grow. "We are debt free, drilling with equity and focusing on incurring no additional risk," Souki said.

To date, however, only France's Total has made a firm commitment to an equity partnership in Driftwood — a $500 million deal signed in 2019. Total can walk away from the project if Tellurian does not declare a final investment decision by June.

Total signs on as partner in Russian LNG reloading project

(Independent Barents Observer; Norway; April 28) - Novatek confirms that French energy major Total is buying 10% of the company that will operate the liquefied natural gas transshipment terminal in the Murmansk region, near the Norwegian border. The company, Arkticheskaya Perevalka, will also operate a similar facility in Kamchatka on Russia's Pacific coast to reload cargoes from expensive ice-class LNG carriers on to conventional ships for less-costly delivery to customers in Europe and Asia.

The terminals will be floating operations that can hold up to 360,000 tonnes of LNG each and simultaneously unload and reload LNG tankers. Ice-class carriers will shuttle between the shipping terminals and liquefaction plants on the Yamal and Gydan peninsulas. The plan is to cut costs and provide efficient transportation of LNG from Novatek-led projects in the Arctic. The terminals will have the capacity to handle about 20 million tonnes per year and are due to be ready for operations in 2023.

Total has long been in talks with Novatek about a stake in the Russian company's reloading terminals. Total already holds a 20% stake in Novatek's Yamal LNG plant, which started up in 2017. The Murmansk terminal will be built by South Korean yard Daewoo Shipbuilding & Marine Engineering, which in October 2020 signed a $748.2 million contract for the work. The project is considered sensitive as the site is located only few miles from closed military town Vidyaevo and a Russian submarine base.

Russia's Arctic LNG-2 project lines up 20-year off-take deals

(S&P Global Platts; April 28) - The partners in the Arctic LNG-2 facility currently under construction in northern Russia have all concluded 20-year deals for off-take from the plant, operator Novatek said April 28. The sales agreements cover total LNG production from the plant, which is expected to begin operation of its first train in 2023. At full capacity of its three trains, Arctic LNG-2 is designed for 19.8 million tonnes per year.

"The LNG off-take volumes are set in proportion to the respective participants' ownership stakes in the project," Novatek said in a statement. Novatek has a 60% stake in Arctic LNG-2, with the remaining shareholders comprising France's Total (10%), China National Petroleum Corp. (10%), China National Offshore Oil Corp. (10%), and a consortium of Japan's Mitsui and JOGMEC — called Japan Arctic LNG — at 10%.

"The long-term off-take agreements between Arctic LNG-2 and its participants ensure the future revenue stream from LNG sales and de-risks the project," Novatek CEO Leonid Mikhelson said. "This represents one of the most important milestones in attracting the project's external financing that will be completed in 2021," he added. Arctic LNG-2 is Novatek's second LNG project, with the second and third trains expected online in 2024 and 2026. Novatek's first project, the three-train Yamal LNG, started operations in 2017. Its annual output capacity is 16.5 million tonnes.

China could help smooth U.S. relations if it bought more LNG

(Wall Street Journal commentary; April 25) - Last week Chinese President Xi Jinping committed to reducing China's coal consumption beginning in 2026. That is later than many climate change activists had hoped, but it will still be a challenge for the world's largest coal consumer. One thing that might help — while also smoothing over relations with the U.S. — would be more cooperation on gas development and trade.

China has been making steady if slow progress on reducing coal as a percentage of its energy mix: 56.8% of energy consumed in China came from coal last year, down from 69.2% in 2010. However, despite an enormous renewable power investment binge in 2020, unleashed as part of China's stimulus efforts, thermal coal power has proved stubbornly resilient. Meanwhile the U.S., an increasingly significant liquefied natural gas exporter to Asia, is locked in a battle for LNG market share with Qatar and others.

Future U.S. LNG export terminals would more likely become a reality with Chinese help — particularly since Qatar's aggressive expansion plans are adding uncertainty to the calculus of American investors. And while China is buying plenty of U.S. energy this year, as of February it was behind the levels needed to satisfy the Phase 1 trade deal negotiated more than a year ago. Both the U.S. and China want to become leaders in renewable energy, but on gas there is a clearer — and rare — alignment of interests.

Equinor's Norway LNG plant restart delayed to 2022

(Reuters; April 26) - Norwegian oil and gas company Equinor has revised the estimated restart date for its arctic liquefied natural gas plant at Hammerfest to March 31 next year to allow more time for repairs after a fire last year, it said April 26. A September 2020 blaze shut down production at the Melkoeya plant, also known as Hammerfest LNG. Equinor had previously scheduled a restart for Oct. 1 this year.

The six-month delay reflects the need for comprehensive repair work that has been hampered by operational measures to handle the COVID-19 situation, Equinor said. Europe's only large-scale LNG plant, at Melkoeya Island just outside the arctic town of Hammerfest, can process more than 600 million cubic feet of gas per day when fully operational. Gas is piped from the offshore Snoehvit field, which is 100 miles away in the Barents Sea and was also forced to shut in as a result of the LNG plant closure.

Extensive firefighting work potentially exposed more than 70,000 unique components to seawater, and the most time-consuming repairs would be the replacement of more than 100 miles of electric cable, which is due to arrive by this summer, Equinor said. Other equipment will not arrive before the summer or autumn, while several compressors need to be removed and sent to the supplier for repair, the company added.

Qatar plans $10 billion bond sale to help finance LNG expansion

(Bloomberg; April 26) - Qatar Petroleum plans to issue up to $10 billion of bonds as soon as this quarter to fund a massive natural gas project, according to a person with knowledge of the matter. The state producer is inviting banks to arrange what would be its first dollar-denominated bonds, the person said, asking not to be identified because the information is private. The company is seeking between $7 billion and $10 billion of 5-, 10-, and 30-year notes, the person said. That would make it one of the largest corporate deals this year and one of the biggest of any kind from emerging markets.

The money would go toward the North Field expansion, the person said. Through that $29 billion project, Qatar will cement its status as the world's biggest exporter of liquefied natural gas. It aims to raise its annual output capacity more than 50% by 2027 to 126 million tonnes. The North Field, situated in the Persian Gulf, is the world's largest gas deposit and shared between Qatar and Iran.

South Korea's LNG demand forecast to grow just 1% a year to 2034

(S&P Global Platts; April 27) - South Korea's energy ministry said April 27 that the country's LNG demand is expected to rise 15.1% through 2034 on the back of higher demand for marine fuel bunkering and hydrogen production for fuel-cell cars, as well as a government-led push to reduce power generation by coal and nuclear. The country's LNG demand is forecast reach 47.97 million tonnes in 2034, compared with this year's estimate of 41.69 million tonnes, the Ministry of Trade, Industry and Energy said.

South Korea's total LNG consumption would grow at an annual average of just 1.01% over the next 13 years, slowing from an average annual rate of 10.3% since the country was first introduced to LNG in 1987. LNG demand for power generation is projected to increase at an average pace of just 0.33% a year to 2034. President Moon Jae-in has vowed to increase power generation by LNG to reduce the country's heavy reliance on coal and nuclear, in an effort to address concerns over air pollution and nuclear safety.

Under the president's long-term power plan, South Korea will permanently shut 30 aging coal-fired power plants, half of the 60 currently in operation, by 2034. Since taking office, Moon has shut 10 coal-fired power plants and two nuclear reactors permanently. About 80% of Korea's LNG come from five nations — Qatar, Australia, Oman, Malaysia, and Indonesia — and the government is looking to diversify its supply sources.

Asian buyers look forward to more Mideast oil to hold down prices

(S&P Global Platts; April 28) - The affirmation from OPEC and its allies that recovering global oil demand has created conditions to boost their output will provide relief to Asian oil buyers that hope the move will ensure adequate supply and prevent a sharp rise in prices at a time some economies are witnessing a resurgence of the COVID-19 virus.

With the OPEC+ alliance betting on the fact that an improving demand outlook will outweigh the surge of coronavirus cases in India, Brazil, and Japan, analysts told S&P Global Platts that OPEC's optimism stems from the argument that demand from some Asian buyers such as India would be affected, but not to the extent that will make a huge dent on their crude buying plans. The last thing Asian buyers want are higher oil prices as they try to rebuild their economies.

OPEC and its allies have the green light to ease back on their production cuts after ministers on April 27 endorsed previously agreed plans to boost crude oil output from May. The alliance intends to pump some 2 million barrels of crude more per day by July. Asian refiners have been receiving less Middle Eastern crude than their original contractual volumes over the past year as suppliers maintained strong production discipline, but sources at major Asian crude importers said they were hopeful that full contractual volumes would be met from as early as May, if not June or July onward.

Report urges Alberta find new uses for dormant oil and gas sites

(CBC News; Canada; April 26) – Thousands of dormant oil and gas sites in Alberta could be a major economic opportunity, with the potential for many to be repurposed for alternative energy uses, according to a new report. But it says for such efforts to take off — potentially turning unused sites into geothermal, hydrogen or lithium recovery projects — the province needs to address the regulatory gaps holding things up.

The report, prepared by the Energy Futures Lab and the Canada West Foundation, calls on policymakers to take legislative action and urges better coordination between regulators. Participants from the oil patch, new energy ventures, landowners, law firms, and others contributed to the report. "There are entrepreneurs that are trying to reuse old oil and gas infrastructure for new purposes … and what they're finding is that there are a number of roadblocks," said Julie Rohl of the Energy Futures Lab. "One of them is just the quagmire of the regulatory environment."

Alberta had more than 2,600 orphan oil and gas sites as of April 1, facilities that haven't been remediated by their often-bankrupt owners. According to the report, there are more than 95,000 inactive wells in Alberta, which can pose an "enormous public financial and environmental liability." The dormant infrastructure also represents a variety of opportunities, the report said. "Many — although not all — of these sites are good candidates for repurposing for other energy uses including geothermal, micro-solar, hydrogen, recovery of lithium, or other minerals, or carbon capture, and storage."

North Dakota landowners battle industry over 'pore space' law

(Grand Forks Herald; ND; April 24) - Arguments over legislation to regulate payments for the use of holes in the ground pitted North Dakota landowners against the state's oil and gas industry this session. The bill passed and was signed into law, but could end up in court. The subterranean cavities, known as "pore space," are as old as geology itself, but they have lately emerged as the scene of a turf dispute in the Oil Patch.

Industry officials and supporters see the underground reservoirs as outlets to clean up fossil fuel production and unlock lucrative new business opportunities, but that ambition has raised conflicts with property owners. Supporters say the underground cavities could become valuable vaults for the storage of carbon and natural gas, helping to reduce greenhouse gas emissions and opening the door to investment from a petrochemical industry looking for permissive underground storage laws.

"It flies in the face of everything this country's built on," said Troy Coons, chairman of the Northwest Landowners Association, a small group that successfully overturned a 2019 pore space law and which has indicated possible legal challenges to the new law. Earlier this year, Coons and the landowners group earned a landmark win over the state and Continental Resources in a court decision that ruled a 2019 law unconstitutional for denying some property owners compensation for the use of their pore space.

This year's bill to create a legal framework for permitting underground storage brought renewed opposition from the Landowners Association, which argued that it would unconstitutionally infringe on property rights and minimize payments to some owners.

Canada tries diplomacy against Michigan's effort to close oil line

(Reuters; April 26) - Canada is pushing on several diplomatic fronts against the state of Michigan's efforts to close a cross-border oil pipeline that can move 540,000 barrels per day of oil and refined products, the second such dispute since President Joe Biden took office in January. The conflict over the aging but key pipeline highlights the disruptions caused by a global shift away from fossil fuels. Both countries are working to accelerate the energy transition, but their oil industries are interdependent, so a policy shift in one country can affect energy supply, and the political balance, in the other.

Ottawa's strategy, according to sources familiar with the government's thinking, is to repeatedly raise the issue with numerous U.S. counterparts — including Biden — to get them to pressure Michigan Gov. Gretchen Whitmer to keep the pipeline open. Last November, Michigan ordered Line 5 to shut by May 13, citing the risk of a possible leak in the four-mile stretch passing under the Straits of Mackinac in the Great Lakes.

The White House has shown no sign of responding to Canadian entreaties, so Ottawa is considering more drastic options, including a threat to invoke an obscure bilateral treaty to keep Line 5 operating, or intervene in the legal dispute playing out in U.S. courts. Line 5, which flows from Wisconsin to Ontario through Michigan, has been in operation for nearly 70 years, but Michigan officials are increasingly alarmed by its advanced age. Line 5 is key to fuel supply for the Great Lakes region on both sides of the border, helping supply an area with a population of more than 40 million people.

U.K. company works on recycling plastics into oil products

(Financial Times; London; April 25) - At a recycling plant in Swindon, 80 miles west of London, an experiment to turn used plastics into oil is underway. If successful, the portable "chemical recycling" plants used in the process — designed to fit into shipping containers — will one day be sold worldwide. Driven by pressure to cut the world's reliance on finite fossil fuels, chemical recycling pioneers hope that producing oil from plastic waste will provide an alternative source of hydrocarbons.

"Chemical recycling of plastics is a niche solution but it is getting extraordinary attention from the largest petrochemical companies and consumer brands," said Ben Dixon, head of circular materials at Systemiq, a consulting and investment group. "Does this herald the start of a revolution? Quite possibly." The Swindon plant is operated by Recycling Technologies, a U.K. firm that employs about 130 and has raised nearly $55 million in equity and grant funding since its creation a decade ago. Recycling Technologies uses pyrolysis, a process in which polymers are broken down with extreme heat.

It heats mixed plastics in the absence of oxygen — known as "cracking" — to produce gas. Through distillation, this vapor is turned into products ranging from heavy wax and oils to light oils and gas, which can provide the feedstock for new polymers or used as fuel. The machine can turn 7,000 tonnes of plastic — including hard-to-recycle waste such as polystyrene and flexible packaging — into 5,250 tonnes of oil (over 38,000 barrels) a year. Obstacles of scalability, poor waste collection infrastructure, high setup costs and uncompetitive pricing when oil is cheap must be overcome to make it viable.

Plans scrapped for new coal power plant in Japan

(Bloomberg; April 27) - A joint venture in Japan has scrapped plans for a coal-fired power plant, leaving the country with no new construction on the horizon as companies drop the dirty fuel amid tighter emissions rules and strong growth for renewables. Kansai Electric and Marubeni won't move forward with a 1.3 gigawatt coal project in Akita prefecture planned for a 2024 start-up, a unit of Kansai Electric said April 27.

The firms decided to cancel the project due to the government's tighter environmental rules and banks curbing financing for carbon-intensive projects, the Nikkei newspaper reported. The companies are considering building a cleaner biomass facility instead, the Nikkei said. While there are still several coal projects currently under construction, Japan has no plans for additional new plants, according to BloombergNEF.

Japan won't build any new coal plants due to "lowering power demand, tighter environmental regulations and additional costs to comply with 'efficient' and 'clean' coal projects," Olympe Mattei, an analyst at BloombergNEF, said by email. The cancellation comes after Japan last week said it would reduce its greenhouse gas emissions by 46% by 2030 compared with 2013, strengthening its commitment under the Paris Agreement.

Second Russian pipelayer starts work finishing gas line to Germany

(S&P Global Platts; April 27) - A second Russian vessel has now begun laying the almost-complete Nord Stream 2 gas line in Danish waters, the pipeline development company said April 27, in a move likely to accelerate the final work on the 1,525-mile Russia-Germany link. The Adakemik Cherskiy — which has dynamic positioning capabilities allowing for speedier pipelaying — has joined the Fortuna pipelayer carrying out work south of the Danish island of Bornholm.

The Fortuna, which uses anchors in pipelaying meaning a slower rate of work, resumed operations in Danish waters on Feb. 6. The Akademik Cherskiy had long been considered as a likely candidate to lay some of the remaining pipeline, which the U.S. has opposed as strengthening Germany's reliance on Russia's natural gas.

The Fortuna has been working at a slower rate than the Pioneering Spirit, which laid much of Nord Stream 2 before its owner, Switzerland's Allseas, halted work in 2019 due to the threat of U.S. sanctions. However, with the Akademik Cherskiy joining the effort, pipelaying is likely to be completed much more quickly. On April 15, Pavel Zavalny, head of the Russian State Duma's energy committee, said he was confident Nord Stream 2 would be completed in time to begin flowing gas by the end of this summer.