# Oil and Gas News Briefs
# Compiled by Larry Persily
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## U.S. calls on OPEC+ to speed up production increases

(Bloomberg; Aug. 10) - Oil dropped suddenly after the U.S. called on the OPEC+ alliance to revive production more quickly. Oil futures tumbled as much as 1.8% in New York on Aug. 10 after U.S. National Security Adviser Jake Sullivan said current OPEC+ plans to boost output weren't sufficient. The world's largest oil-consuming nation has seen gasoline prices firmly above $3 a gallon in recent months, putting pressure on drivers who are back on the road as pandemic restrictions ease.

"We are engaging with relevant OPEC+ members on the importance of competitive markets in setting prices," Sullivan said in a statement. "Competitive energy markets will ensure reliable and stable energy supplies, and OPEC+ must do more to support the recovery." The U.S. has urged OPEC+ in the past to increase supply, most recently in April when Energy Secretary Jennifer Granholm called her Saudi counterpart Prince Abdulaziz bin Salman to highlight the importance of "affordable energy."

The OPEC+ alliance agreed in July to bring back the rest of the production it halted last year during the pandemic, in slow installments of 400,000 barrels a day each month. Oil prices have softened the past few weeks as the Delta variant prompts fresh lockdowns in China and other key fuel consumers in Asia. Still, many analysts expect markets will soon tighten as demand begins to pick up again. OPEC's own data show its planned monthly hikes will fill only a fraction of the supply deficit over the rest of this year.

## EPA advises FERC to add social cost of carbon to project reviews

(S&P Global Platts; Aug. 11) - The U.S. Environmental Protection Agency has advised the Federal Energy Regulatory Commission to begin incorporating the social cost of carbon into its environmental reviews, taking an added look at the climate change impacts of natural gas infrastructure projects. The tool could help the commission put a dollar value on harm caused by project emissions, the EPA said.

The recommendation is consistent with recent comments filed by officials from regional EPA offices about draft environmental reviews on two separate projects. The two draft reviews are among a series of supplemental reports FERC has issued for gas projects as the commission's approach to considering climate change impacts in its decisions continues to evolve. FERC staff has been at an impasse, repeatedly saying in the draft reviews that they are "unable to determine significance" of impacts to climate change.

The recent comments by the EPA on specific pipeline cases creates further potential to shake up the debate on a key FERC policy. The EPA's other recommendations in the recent comments included FERC taking a harder look at local and regional impacts of methane emissions as a precursor to ozone, which can cause harmful effects on human health and the environment. The EPA also said FERC should consider attaching mitigation measures for climate change impacts to certificate orders for gas projects.

## BP signs deal to buy natural gas made from cow manure

(Bloomberg; Aug. 9) - BP is stepping up its involvement in the production of natural gas from organic waste with an agreement to take supplies derived from cow manure in Iowa. BP will obtain the gas — or what the fossil fuel industry calls renewable natural gas — from Gevo's project in northwest Iowa and sell it in California, Gevo said Aug. 9.

Renewable natural gas production is a relatively new source, with manure-based capacity increasing last year by 14%, according to BloombergNEF. BP, along with Chevron and Kinder Morgan, is among the companies attracted to it because it offers lower emissions than some other fuels, while also utilizing methane that would otherwise escape into the atmosphere. Methane is the second-biggest contributor to global warming, after carbon dioxide. Critics, however, say such efforts are unlikely to make much difference and will only delay the energy transition.

Gevo says its project will be completed early next year. BP announced in 2018 a $25 million trash-to-gas project with waste hauler Republic Services. In December, it agreed to a 50-50 renewable-gas venture with Clean Energy Fuels. The gas from the Gevo plant will be sold in California under agreements between BP and Clean Energy Fuels.

## Gambia says BP will pay $29 million for failing to drill oil well

(Reuters; Aug. 10) - The Gambian government said on Aug. 10 that BP has agreed to settle a $29.3 million outstanding commitment to drill an exploration oil well in the West African country's offshore A1 block, which the company was awarded two years ago. BP broke its obligations by failing to drill a well before the initial exploration period expired on July 29, government spokesperson Ebrima Sankareh said in a statement.

"(In) early 2020, the COVID-19 pandemic struck, causing a drastic change in the global oil and gas industry and leading BP to suspend plans to drill as earlier planned," Sankareh said. In July 2020, BP told the government "it would not be able to drill a well in the A1 Block due to a change in its corporate strategy toward low-carbon energy," he said, adding that the block would be placed on the market for licensing.

BP’s deal in Gambia followed its entry into gas fields in offshore Senegal and Mauritania in 2016, that resulted in development of a liquefied natural gas plant to export West African gas worldwide. The $4.8 billion venture is scheduled to start production in 2023, at about 2.5 million tonnes per year output capacity.

## Exxon, Chevron look to pump more oil out of Permian Basin

(Argus Media; Aug. 9) - ExxonMobil and Chevron are ramping up drilling in the Permian Basin of Texas and New Mexico, with a focus on squeezing out more efficiencies as they keep a lid on spending. Chevron is adding rigs and completion crews to the biggest U.S. shale play in the second half of this year, expecting production to surpass 600,000 barrels per day of oil equivalent by the end of 2021. ExxonMobil plans to boost output in the Permian by 40,000 barrels in the third quarter from 400,000 in the second quarter.

The two majors have joined other large Permian producers in being able to take advantage of a significant reduction in service prices last year when the COVID-19 pandemic struck, according to consultancy Rystad Energy. They have also been able to offset subsequent service-cost inflation with additional efficiency gains this year. Getting more from less is the priority after producers were forced to drastically scale back spending and drilling during last year's market crash.

Chevron added a completion crew in the Permian in July, and expects to add another before the end of the year. It expects to add at least one or two more drilling rigs to the five already in place. Exxon's full-year capital budget will be at the lower end of its guidance range, but the Permian is one of the plays to see more spending in the second half of this year. Exxon has doubled lateral-feet-per-day drilling rates compared to 2019, and recently set a record by drilling a 12,500-foot lateral well in 12 days in the Delaware Basin of the region. Drilling rates are around three times more efficient than in 2019.

## Exxon marketing Arkansas shale gas properties to pay down debt

(Reuters; Aug. 10) - ExxonMobil has begun marketing U.S. shale gas properties as it ramps up a long-stalled program that aims to raise billions of dollars to shed unwanted assets and reduce debt taken on last year. The top U.S. oil producer three years ago set a goal of raising $15 billion from sales by December. More recently, it promised to accelerate lagging asset sales to whittle a record $70 billion debt pile.

The company's XTO Energy shale unit is seeking buyers for almost 5,000 natural gas wells in the Fayetteville Shale in Arkansas, spokeswoman Julie King confirmed. Exxon is marketing the properties itself and aims to receive bids this month, people familiar with the matter said. No buyers have been identified, King said, declining to confirm the August call for bids or the company's anticipated value on the wells.

Exxon acquired the Fayetteville assets in 2010 for $650 million amid a shale boom. The boom led to an oversupply of gas that pushed prices to record lows and last year led Exxon to reduce the value of its U.S. oil and gas holdings by $17.1 billion. The Arkansas properties cover some 416,000 net acres and are some of the gas resources cut last year from Exxon's development plan. The sale includes 844 operated and 4,104 non-operated wells, King said.

## Nigeria unable to produce up to its OPEC+ quota

(S&P Global Platts; Aug. 9) – Nigeria's oil output remained hampered by operational and technical problems in July, sources said Aug. 9. Crude and condensate held stable at 1.639 million barrels per day in July, after falling to a six-month low in June, according to data from the Department of Petroleum Resources. Pipelines have faced persistent sabotage in the past few months, resulting in lower production, sources added.

Nigeria's crude oil production is about 250,000 barrels a day under its cap in the OPEC+ deal. S&P Global Platts Analytics expects Nigerian crude supply to remain below its OPEC production quotas in the coming months due to ongoing field and pipeline issues, with a downside risk to 2022 forecast if operational setbacks continue. "Growth is threatened by fiscal stress, which may pressure amnesty payments to former militants," S&P Platts said. "The last time the government curtailed amnesty payments, disruptions surpassed 600,000 barrels per day in mid-2016."

Growing threats by militants to renew attacks on oil infrastructure in the restive Niger Delta also pose a huge concern for Africa's largest oil producer. Nigeria has the capacity to produce about 2.2 million to 2.3 million barrels per day of crude and condensate, but production has averaged only around 1.62 million for the first seven months of 2021, according to S&P Global Platts estimates.

## Saudi Aramco wants to pump more oil, but there are risks

(The Wall Street Journal; Aug. 9) - Even as calls to cut carbon-dioxide emissions ring ever louder, Saudi Aramco is mobilizing to pump more oil. The strategy makes sense on its own terms, but it isn't without risk. On Aug. 9, the U.N. Climate Change Panel's latest report contained a dramatic call to action: "Unless there are immediate, rapid and large-scale reductions in greenhouse gas emissions, limiting warming to close to 1.5 [degrees Celsius] or even 2 [degrees Celsius] will be beyond reach."

A day earlier, the world's largest producer outlined plans to increase its capacity from 12 million barrels a day to 13 million. Saudi Aramco's growth plan highlights how national oil companies such as Aramco are different from producers such as Shell, BP and even

ExxonMobil, which are tempering their petroleum investments as they grapple with questions of how to prepare their emissions-heavy businesses for a lower-carbon world.

State-backed national oil companies have a distinct set of interests. Large government holdings often mean their majority investors worry more of jobs, government revenues and achieving their fossil fuel wealth than carbon emissions. Many, such as Aramco, also have plentiful, relatively cheap-to-extract oil and gas reserves, meaning they will likely be among the world's last suppliers standing when oil demand eventually tapers.

While the likes of Aramco are always subject to domestic political whims, the chances of intervention could rise as future oil demand becomes more uncertain. Aramco may be largely insulated from the growing action on climate change, but that shouldn't blind investors to the company's other challenges in a changing energy world.

## China's biggest refiner dials back output amid demand slump

(Bloomberg; Aug. 9) - China's biggest oil refiner is scaling back operations as Beijing's aggressive response to the Delta virus variant saps demand for road and aviation fuel, according to an analyst. State-owned China Petroleum & Chemical Corp., commonly known as Sinopec, is cutting run rates at some plants by 5% to 10% this month as compared with July levels, Jean Zou, an analyst at Shanghai-based commodities researcher ICIS-China, said in an interview.

Millions of Chinese are shelving travel plans amid the peak summer season and hunkering down as the government imposes mobility curbs to stifle the re-emergence of COVID-19 in the world's biggest oil importer. Beijing is following a strict containment approach despite having a vaccination rate higher than the U.S., prompting a reassessment of the global crude demand outlook. Some Chinese refineries trimmed run rates in the past week, said Wang Lining, a researcher at an institute by China National Petroleum Corp., the country's largest energy company.

Fuel demand is estimated to have dipped 30% July 20 to Aug. 6 compared with early July, JLC, a local consultant, said Aug. 6. There's likely to be a significant impact on consumption through the rest of this month, it said. Beijing's strict COVID-19 elimination strategy could also sap economic expansion and energy demand over the longer term.

## China has its own reasons to shift to renewable energy

(Bloomberg opinion; Aug. 10) - China's outsize energy needs and its reliance on imports have underpinned its foreign policy for decades — but that's changing. The planet's largest oil and coal importer wants to become greener and more self-reliant and has already taken strides toward those goals. The rest of the world needs to pay attention.

By 2060 the world's second-largest economy aims to shift its power generation mix from roughly 70% fossil fuels today to 90% from renewable sources such as wind and solar, as well as hydro and nuclear, according to BloombergNEF's China Policy Bulletin.

That will cut its reliance on resource-rich jurisdictions and on sea lanes controlled by other states. Energy security, always a worry for China, gained more attention after the Sino-Soviet split in the 1960s ended the supply of Soviet crude. It became a bigger priority when China became a net oil importer in the 1990s. Last year, China accounted for roughly a sixth of global oil consumption. Just over 70% of that came from overseas.

Oil and gas from Chinese-held investments abroad satisfied less than a fifth of its domestic demand, and much of that fuel travels through chokepoints like the Straits of Malacca that — in Beijing's eyes — are vulnerable to a naval blockade.

President Xi Jinping's focus on net-zero emissions by 2060 is, yes, an effort at climate leadership from the world's largest greenhouse gas producer and a recognition of the importance of environmental goals. But diversifying China's energy sources, reducing imports and increasing efficiency are valuable aims for geostrategic reasons, too.

## Oil and gas industry bankruptcies slow down in first quarter

(Houston Chronicle; Aug. 10) - Fewer oil and gas companies filed for bankruptcy in the second quarter as crude demand increased and prices climbed past $70 a barrel last month. Four exploration and production companies and eight oil-field service companies in North America filed for Chapter 11 bankruptcy from April to June, according to Haynes and Boone, a Dallas-based law firm tracking bankruptcies in the industry. That's down from 13 companies in the first quarter and 23 in the fourth quarter of 2020.

Of the 12 bankruptcies in the second quarter, seven were filed in Texas. Oil and gas companies have been hit hard by the pandemic, which slashed global demand for crude products such as gasoline and jet fuel. Unlike past downturns, oil and gas companies have been under increased financial pressure after many investors pulled out of the sector in 2018 following years of low-to-middling performance. Several companies said they were forced to file for bankruptcy after lenders pulled credit lines.

Forty-six exploration and production companies and 61 oil-field service companies declared bankruptcy in 2020, according to Haynes and Boone. The 107 oil and gas bankruptcies last year were the most since 142 during the previous oil bust in 2014-16. Bankruptcy filings are starting to slow as crude prices have recovered in recent months. Since 2015, there have been 266 oil and gas producer bankruptcies and 306 oil-field service and transportation bankruptcies. Together, these companies have brought more than $294 billion of debt to court, Haynes and Boone said.

## U.S. shale drillers borrow low-cost money to repay high-cost debt

(Bloomberg; Aug. 10) – Shale drillers — some of them just emerging from bankruptcy — racked up a staggering $42 billion in new debt in the first half of the year. It’s not what you think. America’s oil explorers aren’t repeating the costly mistakes that landed them in hot water with investors, left them almost entirely shut out of debt markets and forced hundreds of them into insolvency over the course of five years. Instead of using their newly found cheap credit to boom once again, they’re using it to retire costlier debt.

Arguably no sector has benefited from the bonanza of cheap debt more than shale, which about a year ago was on the brink of total collapse — facing a pandemic that sent fuel demand plunging and investors and creditors who, even before COVID-19, had grown weary of waiting for profits. But now, average yields on non-investment grade energy bonds plunged to an all-time low of less than 5% last month, from almost 24% in March of last year, making it much less expensive for the companies to borrow money.

The shale patch has gone from 230 bonds trading at distressed levels in April of last year to less than 15, today, according to Bloomberg Intelligence. And as they push maturities back with newer bonds, energy companies face a much smaller wall of debt between now and the middle of next year, at less than $4 billion, said Spencer Cutter, an analyst at Bloomberg Intelligence.

## Louisiana LNG project developer reaffirms FID in early 2022

(S&P Global Platts; Aug. 9) - Tellurian is in talks with bank groups about financing its proposed Driftwood LNG export terminal in Louisiana after signing a series of supply deals with buyers that cover the project's first phase, the company said Aug. 9. The comments were part of an investor presentation that reaffirmed Tellurian's target for reaching a final investment decision on the $12 billion project in the first quarter of 2022.

The first phase would have a nameplate production capacity of 11 million tonnes per year of LNG. Tellurian in recent months chose to pursue the smaller of two options for the first phase of the gas liquefaction and export facility, which at full construction would be capable of producing up to 27.6 million tonnes. As recently as May, Tellurian had estimated a capacity of about 16.6 million tonnes per year for the first phase.

The shift to the smaller option came as Tellurian lined up three medium-term supply contracts with Shell and traders Gunvor and Vitol. The deals marked commercial progress for Tellurian after a two-year lull in the industry that saw only a few long-term contracts signed for U.S. supplies. Tellurian said the 10-year off-take commitments, totaling 9 million tonnes per year, more than cover the first phase of the project.

It said it expects to borrow between 60% and 70% of first-phase development costs, and said it wants to produce all the gas it will need to feed the terminal, and will not sanction the project until it has secured sufficient upstream reserves for the first phase.

## Japan’s Inpex Corp. delays Indonesia LNG project decision

(Reuters; Aug. 10) – Japanese energy company Inpex Corp. expects its final investment decision on the Abadi liquefied natural gas project in Indonesia will be delayed because COVID-19 has disrupted survey work and adjustments may be needed due to climate change concerns, a senior executive said Aug. 10. Japan’s biggest oil and gas explorer said in 2019 it planned to start front-end engineering design on the $20 billion project, also known as Masela, in 2020, with production to start by 2027-2028.

But preparatory work for FEED has been suspended since last year due to the pandemic in Indonesia, Inpex’s managing executive officer, Daisuke Yamada, said. “There will be some delay in the FID, though I can’t say when,” he told news media in an earnings briefing. Inpex controls 65% of the project. “Also, given the growing global push toward decarbonization, we may need to consider redesigning the Abadi project with carbon capture and storage or carbon capture utilization and storage.”

Inpex, however, remains committed to developing the project, he said, as it wants to build another pillar in addition to its Ichthys LNG project in Australia.

## Traders bet on high natural gas prices this winter in Asia, Europe

(Reuters analysis; Aug. 6) - Global gas prices are expected to break records this winter as a hot Northern Hemisphere summer leaves inventories low in key markets, just as greener-energy demand ramps up in new regions. Benchmark Dutch natural gas prices in Europe have surged 80% in the past three months to all-time highs, while spot liquefied natural gas in Asia is at an eight-year seasonal high, Reuters data showed.

Traders are betting that average winter prices will surpass last year's peaks, when a deep freeze across North Asia sent LNG soaring more than 200% to record highs. "Storage levels are quite low in many places as a hot summer has meant that there has not been much chance to replenish stocks, so this could be bullish for winter, especially if it's going to be freezing again," a Singapore-based trader said.

The average price for a December LNG derivatives contract in Northeast Asia is about $17.65 per million Btu, a Singapore-based industry source said. In contrast, last year's December delivered price for physical cargoes averaged about $11.50. East Asia, home to the world's top two LNG importers Japan and China, imported 18 million tonnes more in the first seven months of 2021 than over the same period in 2020, said Xi Nan, vice president of gas and power markets at Rystad Energy.

## Global liquefaction capacity utilization rates fell in 2020

(Gulf Times; Qatar; Aug. 8) – Low-cost Qatar is among six LNG exporting nations that achieved utilization rates of more than 90% of liquefaction capacity in 2020, according to the International Gas Union. Global liquefaction capacity reached 452.9 million tonnes per year at the end of 2020, and the utilization rate was 74.6% on average, compared to 81.4% in 2019, according to the IGU World LNG Report – 2021 Edition.

The lower rate in 2020 was largely due to lackluster demand from a warmer winter in the Northern Hemisphere, exacerbated by the COVID-19 pandemic amid oversupply of gas, the report said. The U.S. suffered a disproportionate decline in liquefaction capacity utilization, primarily due to its flexible commercial arrangements that give off-takers the right, but not the obligation, to lift cargoes. Utilization in the U.S. dropped from 96.9% in 2019 to 76.5% in 2020. However, liquefaction capacity utilization rates in the U.S. recovered quickly in the last months of 2020.

The report noted that Qatar Petroleum has taken the final investment decision for the North Field East expansion, the world’s largest LNG project, which will raise Qatar’s LNG production capacity from 77 million tonnes per year to 110 million tonnes. The project involves the construction of four new LNG mega-trains with a capacity of 8 million tonnes per year each.

## Climate groups call on U.K. to stop North Sea oil project

(CNN; Aug. 10) - The U.K. government has been warned to stop a massive North Sea oil project or see its hopes of becoming a climate leader dashed as the country prepares to host a crucial environmental summit later this year. In the coming weeks, Britain's oil regulator could decide to greenlight the Cambo development near the Shetland Islands, which co-owners Shell and Blackstone-backed Siccar Point Energy expect to produce 164 million barrels of crude during the first phase of development.

Environmental groups and other activists are furious. They claim that approving the development would damage the environment and undermine claims by the U.K. government that it's taking bold action ahead of November's 26th U.N. Climate Change Conference, or COP26, in Glasgow. "We will know if politicians are listening if the U.K. government, as hosts of COP who aspire to lead on climate, call time and put a stop to Cambo," said Tessa Khan, a climate lawyer who leads the advocacy group Uplift.

The political fight underscores the challenges facing governments and businesses as they strive to meet net-zero emissions goals aimed at limiting warming to 1.5 degrees Celsius, which is essential to maintaining a livable planet. Discovered in 2002, the Cambo field could contain over 800 million barrels of heavy crude. Deepwater drilling is expected to start in 2022, with oil production kicking off in 2025 and running until 2050.

## Rural electrical co-ops not moving away from coal as fast as utilities

(The Wall Street Journal; Aug. 8) - U.S. utilities are moving to replace coal plants with renewable-energy sources, but the shift is coming more slowly at the cooperatives that serve much of rural America. Electric cooperatives got 32% of their power from coal in 2019. By comparison, the U.S. as a whole got about 23% of its electricity from coal that year, a 42-year low, according to the federal Energy Information Administration.

Co-ops, which provide power to about 42 million Americans, primarily in the Midwest and West, have remained more reliant on coal than investor-owned utilities in part because they don’t have the same means or motivation to retire coal plants. Now, a growing number of co-op members are agitating for a faster transition to wind and solar.

Co-ops are different from their investor-owned utilities in a number of ways. Because they are owned by customers, rather than shareholders, they can’t raise equity and instead rely mainly on debt for financing. They are exempt from federal taxes and therefore can’t use renewable-energy tax credits. And many of the regions they serve rely on coal plants for jobs and taxes, making plant closures politically challenging.

Chris Riley, CEO of Guzman Energy, a wholesale power company that help co-ops buy cleaner and cheaper electricity, said the prospect of harming local economies is a big hurdle for many co-ops in deciding whether to close coal plants. A Minnesota co-op last year said it planned to close a coal plant in North Dakota but opted to put it up for sale and continue purchasing the power after local leaders opposed its retirement.

## Shell will pay $110 million to settle Nigeria oil pipeline spill

(Bloomberg; Aug. 11) - Shell’s Nigeria unit agreed to pay a community in the West African country more than $110 million to resolve a long-running dispute over an oil spill that occurred more than 50 years ago. The energy giant will pay the Ejama-Ebubu people 45.7 billion naira ($110.9 million) in compensation to put an end to a legal case that began in 1991, the community’s lawyer Lucius Nwosu said. Shell approached a court in Abuja, Nigeria’s capital, on Aug. 11 to disclose the development, he said.

The payment “is for full and final satisfaction” of a court judgment issued against the company 11 years ago, a spokesman for Shell’s Nigerian subsidiary said. The claim against Shell dates back to a pipeline rupture in 1970. Shell has said the environmental damage was caused by third-parties during a civil war that was raging at the time. While the joint venture that Shell operates “does not accept responsibility or liability for these spills, the affected sites in the Ebubu community were fully remediated,” Shell said.

In 2010, a federal court ordered Shell to pay the community. The company unsuccessfully challenged the decision on multiple occasions, including at the Supreme Court last November. Shell will pay the money within 21 days, Nwosu said.