Oil and Gas News Briefs
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Guyana wants better contract terms from oil producers

(Reuters; Aug. 17) - Guyana aims to increase its oil royalties and revamp other contract terms for future crude and gas projects as part of a new profit-sharing agreement (PSA) now in its draft stage, the South American nation's vice president said Aug. 17. The tiny country has become one of the world's most desired oil exploration hot spots after an ExxonMobil-led group, including U.S.-based Hess Corp. and China National Offshore Oil Corp., discovered about 9 billion barrels of recoverable oil and gas off its coast.

Guyana expects this year to install an energy regulatory body and this month will disclose the winner of a one-year contract to market oil production from the prolific Stabroek block. Production started in December 2019 and already had passed 100,000 barrels a day this summer. The new PSA will be tougher than that negotiated with the Exxon consortium and could be ready "within six months or so," said Vice President Bharrat Jagdeo on the sidelines of the Offshore Technology Conference in Houston.

The government has been at odds with Exxon over flaring at its Liza project, the first one producing crude in Guyana. "We have made it clear that in any new PSA we negotiate for those blocks, the conditions will be very, very different than the ones from the Stabroek block," Jagdeo said, including higher royalties and new mechanisms for deducting costs from investment. Previous Guyanese governments have been criticized for the lucrative terms provided to companies involved in the Stabroek block. "All the deficiencies of this contract will be addressed," the vice president said.

Santos CEO says Oil Search merger would make company stronger

(Reuters; Aug. 17) - Santos expects its planned takeover of Oil Search, creating a A$20 billion (US$15 billion) company, will help the combined group weather the energy transition better than if they remained separate. The companies agreed to a deal earlier this month to combine Santos' oil and gas assets in Australia with those of Oil Search in Papua New Guinea and Alaska. Oil Search shareholders are expected to vote on the deal by late November, Santos said on Aug. 17.

After the acquisition Santos, Australia's No. 2 independent gas producer, would become the country's top oil and gas firm. However, rival Woodside is in talks to acquire BHP's oil and gas business, which would make it twice the size of the enlarged Santos. Santos CEO Kevin Gallagher said the larger group would be well funded to finance capitalintensive operations and better positioned to address environmental concerns, amid the push to develop carbon capture and storage and eventually hydrogen.

One of Oil Search's priorities this year is to sell a minority stake in its $3 billion Pikka oil project in Alaska before reaching a final go-ahead. Gallagher said he would continue that process and would be willing to give up operatorship for the right price. Oil Search and its partner Repsol have been working to develop Pikka, targeting a final investment decision by late this year or early 2022, with first oil production in 2025. Oil Search has said the first phase of Pikka could achieve 80,000 barrels per day of output.

[OPEC+ does not see need to pump more oil, despite U.S. pressure]

(Reuters; Aug. 16) - OPEC and its allies, including Russia, believe oil markets do not need more oil than they plan to release in the coming months, despite U.S. pressure to add supplies to check an oil price rise, four sources told Reuters. The price of international benchmark Brent crude has risen 35% this year toward $70 a barrel, driven by economic recovery from the pandemic and supply restraint by the Organization of the Petroleum Exporting Countries and its partners in the alliance known as OPEC+.

Last week, President Joe Biden's administration urged the producer group to boost output to tackle rising gasoline prices it sees as a threat to the global economic recovery. OPEC+ agreed in July to boost output by 400,000 barrels per day a month starting in August until its oil output reductions from 2020 are fully restored.

One of the four sources, speaking on condition of anonymity, told Reuters there was no need to release extra oil more quickly, while another said there was no concern that the planned schedule of increases would leave any demand unmet. Two other OPEC+ sources said the latest data from OPEC and from the West's energy watchdog — the International Energy Agency — also indicated there was no need for extra oil. OPEC+ is scheduled to hold another meeting on Sept. 1 to review policy.

[Refinery volumes in China at lowest level in 14 months]

(Bloomberg; Aug. 16) – China's oil-refining volume slumped to the lowest level in 14 months as private processors scaled back operations amid a crackdown by authorities. Daily crude processing fell below 14 million barrels a day last month, down to the lowest since May 2020, according to Bloomberg calculations based on government figures released on Aug. 16. The independent processors trimmed their refining rates by 8% in July from a month earlier, data from OilChem show.

China has rolled out reforms across the private sector this year in a bid to curb pollution and close tax loopholes. Known as teapots, the independent refiners account for a quarter of the nation's overall processing capacity, with many complexes operated by companies that have expanded from industries such as textiles.

Beijing last week issued teapots with the smallest crude import quota since the sector was allowed to directly buy oil for their refineries in 2015. Daily processing may fall even further in August. China is battling to contain a COVID-19 resurgence due to the fast-spreading Delta variant, and some state-run oil plants have scaled back operations in response to easing fuel demand. Consumption is estimated to have dipped 30% from July 20 to Aug. 6, compared with earlier in July, according to local consultant JLC.

North Dakota oil production holding at 1.128 million barrels per day

(Bismarck Tribune; ND; Aug. 16) - Oil production in North Dakota has plateaued. "I would have to characterize the Bakken at this point as a sleeping giant," State Mineral Resources Director Lynn Helms said Aug. 13. "The COVID pandemic kind of put the industry to sleep, and it's struggling somewhat to wake up." North Dakota's oil output from May to June was dead flat at 1.128 million barrels per day both months. Oil production data lags several months, and June figures were released Aug. 13.

The state's production all year has hovered around 1.1 million barrels per day. It's recovered somewhat from last summer's lows amid the pandemic, but it's far from the record 1.5 million barrels per day of late 2019. Production will likely rise more next year, Helms said. Slowly, companies are adding back rigs, as well as crews needed to frack newly drilled wells so that they can start producing oil. The state's gas production also is holding steady. June saw 2.983 billion cubic feet of natural gas per day produced.

The oil and gas industry captured 92% of that gas, burning off the rest in flares. The state as a whole is meeting its 91% gas capture target, but regulators are forcing two companies operating on the Fort Berthold Indian Reservation to curtail their production because they cannot meet flaring expectations, Helms said. Gas production is expected to grow, and the state will need to have more pipelines and processing facilities in place within the next two years if it's to continue to keep flaring down, officials say.

U.S. shale oil production headed to highest since May 2020

(Reuters; Aug. 16) - U.S. shale oil output is expected to rise to 8.1 million barrels per day in September, the highest since May 2020, according to the Energy Information Administration's monthly drilling productivity report on Aug. 16. The forecast is led by growth in the largest formation, the Permian Basin, where crude output is estimated to rise 49,000 barrels per day in the month, offsetting falling output expected from the Bakken Shale in North Dakota and Montana, and other top regions.

Production in the Permian is expected to reach 4.8 million barrels per day in September, the highest since March 2020. As oil prices recovered from the lows seen last year, U.S. energy firms have ramped up drilling activity. U.S. oil rigs rose 10 to 397 last week, their highest since April 2020, and up from 172 a year ago, Baker Hughes data showed.

Nigeria reduces oil taxes and royalties from original proposal

(Bloomberg; Aug. 16) - Nigerian President Muhammadu Buhari has signed into law long-awaited legislation to overhaul the oil and gas industry in Africa's biggest oil producer. Buhari signed the bill on Aug. 16, a month after it was voted through by both chambers of the National Assembly, presidential spokesman Femi Adesina said in an email. Buhari's government is banking that the reforms will attract a greater share of global capital allocated to fossil fuel projects.

The bill was first presented to parliament in 2008 and is aimed at removing legal and regulatory uncertainty that has held back the industry's growth. While oil contributes less than 10% to Nigeria's gross domestic product, it accounts for nearly all foreign-exchange earnings and half of government revenue. The country's economic-growth cycle is closely linked to crude output. Wrangling between politicians and complaints by oil companies scuppered previous efforts to update the regulations.

Firms active in Nigeria, which include Shell and Chevron, secured some concessions after objecting to parts of the bill that was sent to parliament in September. Lawmakers lowered the levels of taxes and royalties originally proposed and decided that a "hydrocarbons tax" should not apply to deep offshore production. The law "will offer materially lower royalties and taxes for oil," energy consultant Wood Mackenzie said on Aug. 12. The government also hopes the legislation will incentivize investors to support its ambition to significantly increase Nigeria's natural gas output and consumption.

U.S. petroleum consumption up for plastics, down for fuels

(Reuters column; Aug. 17) – Overall U.S. petroleum consumption has recovered to pre-pandemic levels, but there has been a marked shift from consumer-facing sectors toward industry and freight transportation, mirroring the uneven economic recovery. The total volume of petroleum products supplied to domestic customers climbed to 20.1 million barrels per day in May, according to the Energy Information Administration.

Volumes were down by less than 300,000 barrels per day from the same month in 2019, before the COVID-19 pandemic, and were actually 200,000 above the pre-pandemic five-year average for 2015-2019. But continued strong growth in consumption of hydrocarbon gas liquids (HGL), mostly used in petrochemicals and other industries, has masked an incomplete recovery in fuels supplied to end-users.

HGL consumption reached 3.4 million barrels per day in May, up from 2.7 million in May 2019, and an average of 2.5 million in the five years before the coronavirus hit. By contrast, consumption of finished petroleum products was 16.5 million barrels per day, down from 17.5 million two years earlier and a five-year average of 17.3 million. Half of the lost production of petroleum products was due to less demand for jet fuel. The same pattern is apparent in other major oil-consuming areas, including Europe and China.

Report may block Exxon plan to truck crude in California

(Santa Barbara Independent; CA; Aug. 17) - ExxonMobil's plans to truck oil out of its Las Flores facility along the Gaviota Coast in southern California, about 115 miles northwest of Los Angeles, hit a major roadblock with the release of an environmental impact report finding that the risk of spills caused by trucking accidents qualifies as a Class I environmental impact, no matter what safeguards and mitigations are imposed.

Legally and politically, this means the Santa Barbara Planning Commission and Board of Supervisors would have to make findings of "overriding considerations" to allow ExxonMobil to begin hauling up to 70 truckloads of oil a day to move forward. Given acute concern about the impacts of climate change and the current political tilt of the county supervisors, it would appear ExxonMobil faces an uphill struggle.

The environmental impact report, released Aug. 16, said: "An offsite accidental spill of crude from a truck accident has the potential to impact sensitive … biological, cultural and water resources." Exxon is proposing to restart operations and truck the crude after losing access to a pipeline six years ago. Efforts to restart the damaged line have moved slowly due to regulatory issues and local opposition. According to the report, the chances of a spill greater than five gallons occurring was once every 17 years or once every 52 years, depending on the destination for the crude.

Oil and gas industry expects to be a target in Canadian election

(Financial Post; Canada; Aug. 18) - As another federal election kicks off, the Canadian oil and gas sector finds itself in a familiar position. The industry is hoping for policy certainty and a concrete discussion about the future of the sector, but expects to become a target for tough talk about new policies. "The debate will be on obviously climate change," said Jeremy McCrea, an industry analyst with Raymond James. "If oil and gas can stay under the radar and not be the bogeyman that it's been in prior elections, a lot of these executives will be happy." That's the hope.

Whitecap Resources CEO Grant Fagerheim said there are strategic policy issues to dissect, such as the role of carbon capture, utilization and storage to reduce emissions.

However, he's not anticipating a lot of nuance in the days ahead. "I am not expecting much, other than the continual rhetoric … with the blame placed on fossil fuel energy," Fagerheim said. "I don't hold up a whole bunch of hope."

During the 2019 national campaign, the oil and gas sector was caught in the political crossfire of a divisive carbon tax clash and climate debate between the parties. "I was appalled the way it played out … to be a piñata and not even have an honest conversation, an honest dialogue, about the importance of the energy sector," Alberta Energy Minister Sonya Savage said in an interview. It remains to be seen how prominent a role the industry will play in the run-up to the Sept. 20 vote.

Higher coal prices in Asia hurt its competitiveness vs. LNG

(Reuters column; Aug. 16) - Coal's spectacular rally in Asia is now running the risk of becoming a victim of its own success, with the power-plant fuel becoming uncompetitive versus liquefied natural gas priced against oil. Benchmark high-quality Australian coal rose to a 13-year high of $168.71 a tonne in the week to Aug. 13. The grade, preferred by Japanese and South Korean utilities, has surged 264% since its 2020 low in September as countries locked down their economies to combat the coronavirus.

Data from Refinitiv shows that the natural gas switching price in Japan — which is the price at which generating electricity from coal — currently is about equal to that from LNG. The coal-switching price is $10.01 per million Btu, while the Brent crude oil-linked LNG price is $10.28. This means that it is almost as cheap to use LNG to generate power as coal, which is a reversal from recent history.

At the end of last year the switching price was $4.71 per million Btu for coal, while the Brent-linked LNG price was $7.03. It's worth noting that just because the switching price has moved in favor of LNG, it doesn't automatically follow that utilities will immediately change their generation mixes. It usually takes several months for the switch to take place as oil-linked LNG prices typically move with a lag to fluctuations in the crude price, and as coal purchases are usually agreed on a quarterly basis.

Heavy ship traffic at site of Russia's Arctic LNG-2 project

(Barents Observer; Norway; Aug. 16) - Over the past year, ships have crowded along Russia's Arctic coast of the Gydan Peninsula where natural gas producer Novatek is developing its Arctic LNG-2 project. Massive volumes of construction goods are needed to build the port terminal and liquefaction plant, which ultimately will produce almost 20 million tonnes of liquified natural gas per year. The initial start-up is planned for 2023.

Cargo and construction shipments to the area accelerated after sea ice in the shallow bay melted in July, and up to 50 ships have lately simultaneously amassed in the waters near the port terminal. On Aug. 16, 45 ships were in the waters near the new seaport. In addition, about 100 vessels were located in other parts of the Ob Bay, most of them near the Sabetta port, the Novy oil terminal and the drill site of a jack-up.

There are also several dredgers in the area engaged in the deepening of ship lanes. The Gulf of Ob and the adjacent peninsulas of Yamal and Gydan are a top priority for Russia's oil and gas industry, though environmentalists fear the vulnerable Arctic environment could experience irreversible damage as resource extraction expands into the area. Early work at Rosneft's Vostok Oil project also is underway, with at least three ships moored at the work site. Vostok is scheduled to start producing oil in 2024.

Growing LNG trade fuels strong boost in U.S. gas exports

(Natural Gas Intelligence; Aug. 16) - With robust demand from both Europe and Asia for U.S. supplies of liquefied natural gas and strong levels of pipeline gas deliveries to Mexico, the Energy Information Administration has forecast that U.S. gas exports would exceed imports by an average of 11 billion cubic feet per day in 2021. That would mark a nearly 50% jump from the 2020 average of 7.5 bcf per day exports over imports.

The U.S. imports pipeline gas from Canada, particularly in western and midwestern states and eastern markets, though exports now far exceed that volume, particularly as LNG sales are growing. The EIA said in its August Short-Term Energy Outlook that, for the first time since LNG exports from the Lower 48 began in 2016, annual send-outs of the fuel this year are expected to outstrip pipeline gas exports — by 0.6 bcf per day.

Demand for LNG from Asia and Europe, where storage levels are depleted, is expected to continue driving demand through the winter. Additionally, pipeline exports to Mexico, already strong in the spring, accelerated this summer amid intense heat and elevated cooling demand. The EIA said it expects U.S. exports of natural gas by pipeline and as LNG combined to average nearly 18.4 bcf a day in 2021 and forecast 19.3 bcf per day in 2022, almost 20% of current marketed U.S. gas production.

Drivers increasingly turn to compressed natural gas in India

(Nikkei Asia; Aug. 17) - With gasoline prices soaring and electric vehicles prohibitively expensive, more Indians are turning to cars running on a cheaper alternative fuel — compressed natural gas. The surge in demand has left India's two sellers of CNG-fueled vehicles racing to stay ahead as new players like Tata Motors and Honda Motor prepare to enter the market. It has also generated new investment in CNG fuel infrastructure.

After 41 gasoline price hikes since May — due to surging oil prices — drivers are paying more than 100 rupees per liter ($5.10 per gallon) in most parts of the country, almost 25% higher than in January. CNG, which results in fewer global warming emissions than gasoline, is made by compressing natural gas to less than 1% of its volume. It is used across India to heat homes. Elsewhere, it fuels larger vehicles such as buses.

Due to low production expenses and tax incentives, CNG costs drivers in India up to 50% less than gasoline and makes for more fuel-efficient cars. Two automakers currently sell CNG vehicles in the country: Indian-Japanese manufacturer Maruti Suzuki is the market leader, offering eight models, while South Korea's Hyundai Motor has four models available. Sales were already at an all-time high before the gasoline price hikes. Between them, the two companies sold 181,031 CNG cars in the fiscal year to March 2021, up from 116,374 the previous year, according to their published data.

Gas crunch, higher carbon fees in Spain help push for solar and wind

(Bloomberg; Aug. 17) - The Spanish government is moving to bring more solar and wind farms online after power prices soared to multiple records this summer. Surging costs for natural gas and for the required permits to burn carbon in the European Union are putting pressure on consumers just as the bloc's economies struggle to recover from the pandemic. Spain plans to support 3.3 gigawatts of new solar and wind energy with the expectation that the extra supply will help drive down electricity prices.

Spanish power prices have increased this year due to a natural gas supply crunch. At the same time, Europe's moves to cut emissions by the middle of century have helped push up the price of carbon permits — a fee that energy producers have to pay for greenhouse gas emissions. The Spanish government said auctions for new green energy capacity will be accelerated to bring relief to consumers.

The move underlines the competitiveness of renewable energy, despite a boom in the price of commodities such as steel and copper that has pushed up the cost of solar panels and wind turbines. As is the case in nearly half the world, it's cheaper in Spain to build solar or wind farms than to run existing plants that burn fossil fuels, according to research from BloombergNEF. The cost differential is even greater compared with building new polluting plants.

High natural gas prices threaten industrial users in Australia

(Sydney Morning Herald; Aug. 17) - Australia's competition watchdog is forecasting another spike in natural gas prices across southeastern states in the next two years, warning the market is on edge and companies that rely on the fossil fuel could face further pain. In the update to the Australian Competition and Consumer Commission's long-running inquiry into the gas market, chairman Rod Sims reiterated that opening up new domestic sources of gas would be critical to avoiding price rises and shortfalls.

“There’s no question that there’s a very tight squeeze on people that want gas,” Sims said on Aug. 17. Long-term gas supply contracts in Australia’s southeast were being offered at a little over $6 to as much as $11 per million Btu for 2022 and 2023. Australia is one of the world’s top shippers of liquefied natural gas. Most of its gas is produced in the nation’s north, far away from demand centers in the southeastern states, and exported under long-term contracts to overseas buyers rather than sold domestically.

Energy Users Association of Australia CEO Andrew Richards, who represents industrial gas users, said in July prices for long-term wholesale contracts at $10 threaten the viability of Australia companies that rely on gas for power supply or for feedstock in chemical manufacture. Australian Petroleum Production and Exploration Association chief executive Andrew McConville said gas producers were continuing to bring more supply online for domestic customers.

Developer wants to build zero-emissions power plant in Canada

(Financial Post; Canada; Aug. 18) - Venture capitalist Erin Campbell is looking to build up to 10 net-zero gas-fired electric generating plants in Canada. “This is the time to build these kinds of plants. We think it’s a really compelling value proposition,” said Campbell, vice chair of Vancouver-based Kanata Clean Power, after announcing a partnership on Aug. 9 with the Frog Lake First Nation in Alberta to build what she hopes will be Canada’s first zero-emissions 50-megawatt gas-fired plant.

Natural gas prices have risen sharply both domestically and internationally over the course of the past year, with many analysts expecting prices to remain elevated as the commodity continues to displace coal for electric generation. Campbell said the outlook for natural gas commodity prices has trended upward, but not to the point where her projects’ break-even costs would suffer. “We see natural gas remaining affordable,” she said, though perhaps not as affordable as it has been in recent years.

Campbell said her company has identified 30 coal or gas plants in North America that could eventually be replaced by zero-emissions gas plants, as the power sector further decarbonizes. Kanata Clean Power has a license agreement with Durham, North Carolina-based Net Power to use its technology that burns natural gas in the presence of pure oxygen to produce a combination of power, water and captured carbon dioxide. Currently, the technology is being used at a 50-megawatt power plant near Houston, and is licensed at four other plants under construction in the U.S. and one in the U.K.

[Saudis look to raise billions from selling stake in gas pipelines]

(Reuters; Aug. 16) - Saudi Aramco is looking to raise at least $17 billion from the sale of a significant minority stake in its gas pipelines, higher than the $12.4 billion raised from its oil pipeline deal, sources familiar with the matter said on Aug. 16. Potential bidders including North American private equity and infrastructure funds, as well as state-backed funds in China and South Korea, have been approached by Aramco through its advisers before a formal sale process kicks off in the next few weeks, sources said.

Saudi Arabia is the world's sixth-largest gas market, according to Aramco. "The gas deal is about the long-term view of gas utilization and consumption in Saudi Arabia," said one source familiar with deal, explaining why the pipeline deal may generate solid proceeds. The source said many industries will shift to gas under the Economic Vision 2030, meaning domestic gas demand and pipeline use will rise. Aramco is working with JPMorgan and Goldman Sachs on the deal to tap potential buyers, sources have said.

Other potential bidders showing interest in the Aramco sales process include China's Silk Road, Chinese state-backed investment fund CNIC Corp., South Korea's sovereign wealth fund Korean Investment Corp. and NH Investment & Securities, sources said. Aramco, similar to Abu Dhabi National Oil Co., used a lease and lease-back agreement to sell a 49% stake of newly formed Aramco Oil Pipelines Co., along with the rights to 25 years of tariff payments for oil carried on its pipelines.