Oil and Gas News Briefs
Compiled by Larry Persily
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Delta surge worries oil markets that supply will outpace demand

(Calgary Herald columnist; Aug. 21) - After a strong price rally through the spring and early summer, a dose of reality has set in for volatile oil markets. Since the end of July, benchmark U.S. oil prices have fallen by more than $11 a barrel, with the September contract closing Aug. 20 at US$62.25. It's not a large enough decline to see oil patch executives pulling out their erasers to rewrite 2021 business plans. However, energy markets are clearly worried about the impact of the Delta variant on global oil demand.

"It feels like the Delta variant has gained control of the oil market and the narrative here," said analyst Patrick O'Rourke with ATB Capital Markets. "We were on the cusp of the economy re-emerging and the beginning of international travel. And the brakes have been completely pumped on that." Global oil consumption is now expected to increase to only 96 million barrels per day in 2021, well off the pre-COVID peak of 100 million.

Meanwhile, oil production is expected to increase in the coming months following a decision by OPEC+ countries to boost output. And production from non-OPEC countries, including the United States and Canada, is expected to jump by 1.7 million barrels per day in 2022, on the heels of a 600,000 increase in 2021, according to the International Energy Agency. "Prices had gotten ahead of themselves a bit. We still have high levels of spare OPEC capacity" to produce additional barrels, said Jackie Forrest, executive director of Calgary-based ARC Energy Research Institute.

U.S. crude benchmark falls to $62.25, down 19% from July peak

(CNBC; Aug. 20) - Oil dropped for a seventh straight session on Aug. 20, falling to the lowest level since May as demand fears and comments from the Federal Reserve that it will suspend its bond-buying program sent prices tumbling. West Texas Intermediate crude futures for September delivery fell to $62.25, its lowest level since May 21. International benchmark Brent crude declined to $65.00 per barrel.

"Concerns about demand due to the global spread of the Delta variant are continuing to preclude any higher prices," analysts at Commerzbank wrote in a recent note to clients. Data from the U.S. Energy Information Administration released Aug. 18 showed a surprise build in gasoline stocks, which sparked fears of a weaker-than-expected end to the summer driving season. "Though the summer driving season still has three weeks to go, it is already clear that it will not meet the high expectations," Commerzbank added.

Oil staged a strong comeback during the first half of the year as demand returned and producers kept supply in check. But the momentum began to stall in July as the Delta variant spread. WTI is now down 19% from its recent high of $76.98 on July 6. "There are still too many question marks over the crude demand outlook over the next few months and that will weigh on crude prices," said Ed Moya, a market analyst at Oanda.

Falling oil prices boost profits for refiners

(The Wall Street Journal; Aug. 18) - Summer road trips and a pullback in crude prices have pumped up U.S. refineries' profits, offering brighter prospects for one part of the oil complex despite rising worries about COVID-19. Oil prices have headed down in recent weeks since China, the world's biggest commodities consumer, imposed restrictions to contain the Delta variant. A decision by OPEC+ to pump more oil is also weighing on crude markets. Prices are down more than 10% from their 2021 high.

The retreat is weighing on shares of oil producers, but refiners stand to gain when gasoline and other products they produce fetch higher prices than the crude they purchase. Refiners had already benefited from a summer surge in gasoline demand that pushed average U.S. pump prices above $3.15 a gallon.

One gauge of U.S. refiners' profit margins — the gap between the price of gasoline and crude futures — stood at $25.58 a barrel on Aug. 18. That was close to the highest level for this indicator, known as the crack spread, on FactSet data dating back to 2016. Refiners have revved up operations. In the four weeks through Aug. 13, they ran at about 92% of capacity, according to the U.S. Energy Information Administration, compared with 80% a year before. Analysts say rising crack spreads are a welcome turn for refiners after a dire year for the industry in 2020.

Newest oil nations don't want to be left behind by clean-energy push

(Reuters; Aug. 19) - The world's newest oil-producing nations grabbed the spotlight at the Offshore Technology Conference with ambitious plans to tap oil and gas finds in a race against the energy transition to lower-carbon fuels. At the conference highlighting renewable and cleaner-burning fuels as investors move away from fossil fuels, Brazil, Ghana, Guyana and Suriname laid out agendas to pump massive oil and gas reserves that could help their economies — if they can get them to market before values erode.

The contrast between their goals and governments moving to impose net-zero carbon emissions rules by 2050 was clear in the first large U.S. oil technology conference and exhibit since the pandemic. Historically a place for oil firms to boast of deepwater breakthroughs, this week's Houston conference showcased cleaner fuels and the urgency of emissions reduction, accentuating low-carbon tech, offshore wind and clean-burning hydrogen.

"We have millions of people without electricity in Africa," said Ghana Energy Minister Matthew Opoku Prempeh. "Energy transition does not mean we'll see our resources unexploited." With three-quarters of Guyana covered by forest, carbon emissions from massive oil and gas discoveries just beginning to be tapped can be absorbed, Bharrat Jagdeo, Guyana's vice president, told the conference. "We have been called to leave our oil in the ground. We believe that's totally unfair," said Jagdeo. Suriname believes it can join the club of producers and use oil revenue to fund development of cleaner fuels.

BHP might be wise to sell its oil and gas assets while it can

(Reuters column; Aug. 18) - The market hasn't exactly cheered BHP Group's proposed sale of its oil and gas business, with shares of both the mining giant and the acquirer, Woodside Petroleum, tumbling in the wake of deal. A point of concern for investors is that BHP may have sold its oil and gas assets too cheaply. While there is likely some element of truth in this, investors may be missing the point: It's likely this deal signals that the era of paying premiums to acquire oil and gas assets is over.

From now on, companies seeking to offload these type of assets will be forced to accept ever-diminishing prices. Perhaps BHP shareholders should reflect on another asset that the company is trying to sell. BHP has had its Mount Arthur thermal coal mine in Australia's New South Wales up for sale for more than a year. It hasn't found a buyer. BHP might even pay somebody to take the mine off its hands, given that the company slashed the value of the asset on Aug. 18 from A$550 million to a liability of A$275 million ($198 million). Just seven months ago, it was valued at more than A$2 billion.

The fact that BHP can't seem to find a buyer for Mount Arthur in the best market for thermal coal since 2008 is telling. Coal assets have largely become toxic. While it's not a fait accompli that oil and gas assets will travel down the same path as coal, the risks are increasing that they will. A renewed focus on climate change and rising concern about the environment among investors will make it difficult for oil and gas companies to attract shareholders and capital, even if prices and demand remain strong.

Norwegian fund says producers not doing enough to cut emissions

(Bloomberg; Aug. 19) - Norway's wealth fund says there are oil companies in its portfolio that "absolutely" aren't doing enough to cut emissions, as the guidelines it operates under are reviewed to give climate risk greater prominence. Norges Bank Investment Management still holds stakes in a number of fossil-fuel giants, including

ExxonMobil, Chevron and BP, after failing to win political approval to dump its entire portfolio of oil stocks a few years back.

“These are companies we monitor very, very closely with a view to the climate and emissions,” Carine Smith Ihenacho, chief corporate governance officer at the Oslo-based fund, said in an interview. Norway is now taking another look at the mandate handed to its wealth fund, the world’s biggest. On Aug. 20, a government-appointed expert group submitted its recommendations amid increasingly disturbing evidence that the planet is heating up much faster than previously feared.

The expert group said the government should “change the mandate” under which the fund operates to “better handle climate risk.” Changes would include giving the fund more leeway to put pressure on companies, using its global dominance as a stock owner to influence shareholder votes, and, if companies don’t improve, the fund should have more scope to divest. Martin Skancke, who led the group, said the fund already incorporates climate risks in its strategy. “But that’s because there have been people at the fund who are passionate about this, and who treat this as a serious issue,” he said. It’s “not satisfactory” to just rely on good people. “It needs to be in the mandate.”

Conoco’s court defeat shows challenges facing industry

(Bloomberg; Aug. 20) - Although the climate-conscious Biden administration supported ConocoPhillips’ $6 billion Willow oil development on Alaska’s North Slope, that couldn’t stop a judge from throwing it in limbo on environmental grounds. U.S. District Court Judge Sharon Gleason’s decision to rescind the Trump administration’s approval of the project is a “surprise” given that in May the current administration defended the project in court, RBC Capital Markets analyst Scott Hanold said in a note Aug. 19.

The setback for ConocoPhillips highlights how difficult it has become for Western oil producers to seek growth amid an unprecedented wave of heat, droughts, floods and wildfires blamed on man-made climate change. Investors, governments, lawmakers and courts are increasingly embracing concerns that in the past had been more typical of environmentalists. The push is gaining speed beyond any government’s position, while shareholders have tamed the U.S. shale industry’s once insatiable thirst for growth due to financial concerns and also pressure for environmentally responsible investments.

Judge Gleason said Willow’s prior approval failed to adequately protect polar bears and didn’t properly consider the effects on climate change. “We think this ruling greatly increases the likelihood for ConocoPhillips’s Willow project to be materially delayed or permanently shelved,” said Leo Mariani of KeyBanc Capital Markets. ConocoPhillips will review the decision and evaluate the options available, a spokesman said by email.

[California turns to temporary gas-fired power plants to keep lights on]

(Bloomberg; Aug. 19) - California, a state that has been aggressively weaning its power grid off of fossil fuels, is now working on adding several natural gas-fired plants in an effort to keep the lights on this summer. The California Department of Water Resources is in the process of procuring five temporary gas-fueled generators that have individual capacities of 30 megawatts, said spokesman Ryan Endean. The units will be installed at existing power plants and are expected to be operating by the middle of September.

The move comes after California Gov. Gavin Newsom declared a state of emergency for the power grid on concern about supply shortages during hot summer evenings when solar production wanes. The order, issued last month, aimed to free up energy supplies and speed up power plant development to help avert blackouts. It also temporarily lifted air-quality rules. Earlier this year, California regulators balked at ordering utilities to add new gas-fired generation after environmental groups said it would run counter to the state's de-carbonization goals.

Officials have been scrambling to shore up power resources ever since brief blackouts hit in August 2020 during an extreme heat wave. The situation has become more dire this summer as a historic drought has reduced California's hydroelectric supplies. The state has been retiring gas plants under a goal to have its grid carbon-neutral by 2045. The California Energy Commission approved on Aug. 17 licenses for the emergency gas generators for up to five years.

[Environmental group accuses Permian producers of illegal flaring]

(Reuters; Aug. 18) - Oil producers such as ExxonMobil and Shell are burning off gas in the largest oil field in the United States without the required Texas state permits, the environmental group Earthworks said in a report on Aug. 19. Producers flare gas, an unwanted by-product of oil extraction, when they cannot transport the gas to consumers. Flaring reduces, but doesn't eliminate, methane emissions and contributes to climate change by releasing carbon dioxide into the atmosphere.

Texas, the nation's biggest oil producer, is more permissive on flaring than other states. The report compared permitting records from Texas regulators with flares witnessed on flights equipped with gas-imaging cameras that were conducted by the Environmental Defense Fund. It found that of 227 flares observed, between 69% and 84% were likely unpermitted. Big producers such as Shell, Exxon and Diamondback Energy were among the companies with multiple flares that had no permits, the report said.

Shell and Exxon dismissed the findings and said they follow all regulations and work toward ending routine flares. A Shell spokesperson said it has not "routinely flared in the Permian Basin" since 2018, while Exxon spokesperson Julie King said its Permian Basin flaring is at a "record low of less than 1%." Texas regulations allow for unpermitted flaring in some cases, including releases from storage tanks, in the first 10 days after a well's completion, or during equipment maintenance, construction or repair.

Texas regularly grants exceptions to the rules. The state, which produces nearly 5 million barrels of oil every day, accounted for 47% of all gas vented or flared in the United States in 2019, according to the U.S. Energy Information Administration.

Louisiana LNG project developer asks FERC to reject challenges

(S&P Global Platts; Aug. 18) - As it seeks federal authorization and also commercial support for its project, Commonwealth LNG asked U.S. regulators in a submission filed Aug. 18 to reject environmental groups' objections to the development. An amendment to change the design for the Louisiana terminal's storage tanks is being used by the groups to question the entire project, Commonwealth argued.

The developer also recently addressed regulator's latest environmental questions, as it hopes to keep the process on track. Amid a crowded field of proposed export projects, Commonwealth is looking to build momentum for the 8.4 million-tonnes-per-year facility, targeting final investment decision in late 2022 and start-up in 2025. Earlier this month, Commonwealth said it had signed a preliminary agreement with Bangladesh's Summit Oil & Shipping to potentially contract for up to 1 million tonnes per year from the facility.

Environmental groups, meanwhile, have aggressively opposed growth of LNG projects along the U.S. Gulf Coast. In its response to protests filed with the Federal Energy Regulatory Commission, Commonwealth LNG argued that the objections to its larger storage tanks were more about the company's original application two years ago and, therefore, should be rejected for being untimely. "Protestors make no attempt to demonstrate that increasing the capacity of the storage tanks in any way renders the Commonwealth LNG project inconsistent with the public interest," the developer said.

Europe faces gas supply squeeze this winter as LNG heads to Asia

(Bloomberg; Aug. 18) - Europe's vast network of liquefied natural gas import terminals can't save it from a winter supply crunch. LNG supplies entering European grids in July fell to the lowest for the month in three years, and the outlook for August is even grimmer. Just one cargo is scheduled to arrive in the U.K. in August, while traders that have the fuel stored in Spain are set to export six cargoes to grab higher prices in Asia. All of that comes as Russia has been sending less gas to Europe by pipeline, setting up the continent for a very difficult winter should freezing temperatures hit.

With inventories in Europe at their lowest level in more than a decade, gas prices in the continent have been volatile. Records have been broken day after day, with the market on edge for any sign of new supply coming through the yet-to-be completed Nord Stream 2 pipeline linking Russia and Germany. In the meantime, Russian gas giant Gazprom said this week it was overwhelmed with record demand both abroad and in Russia, where it needs to refill storage sites depleted beyond normal last winter.

With supplies tight and the giant Groningen gas field in the Netherlands possibly closing three years ahead of schedule, Europe is becoming more dependent on the vagaries of the global gas market to get the LNG it needs to keep homes heated and lights on during the winter. But tight supplies in Asia mean that countries from China to Japan and South Korea have been willing to pay more, taking away supplies from Europe.

New Russian gas pipeline to Europe closer to starting service

(Bloomberg; Aug. 19) - A controversial Russian pipeline could deliver the first batches of natural gas to Germany this year, according to Gazprom. The Nord Stream 2 link could move 200 billion cubic feet of gas in the last months of 2021, the Russian gas giant said in a statement on the eve of a meeting between President Vladimir Putin and German Chancellor Angela Merkel in Moscow. The new pipeline will help ease a supply crunch in the European market.

The controversial link — which will double the capacity of the existing undersea route from Russian gas fields to Europe — has been a source of friction in trans-Atlantic relations for several years, with the U.S. claiming it could give Russia new leverage over Europe. Europe is facing a gas crunch as Russia has been limiting flows at a time when liquefied natural gas cargoes are being redirected to Asia to meet soaring demand from China, Japan and South Korea.

Before carrying the first gas flows to Europe, Nord Stream 2 needs to obtain insurance and certification, a task made difficult by U.S. sanctions that restrict providing these services to the project. Some traders have argued Russia was capping flows to Europe this year as a way to keep pressure to get Nord Stream 2 over the finish line. The construction of the gas link may be completed in August, CEO Matthias Warnig said in July. Commissioning work for gas supplies may take another six to seven weeks.

Chevron invests in waste-to-green renewable fuel start-up

(S&P Global Platts; Aug. 18) - Chevron and other partners said they are investing in a start-up to build modular waste-to-green hydrogen and renewable synthetic fuel facilities in northern California with tentative plans to eventually grow worldwide. The $20 million investment in Wyoming-based Raven SR is focused on technology to develop combustion-free, green hydrogen as a transportation fuel that is cleaner than so-called blue hydrogen derived from natural gas.

Unlike alternative approaches to waste disposal, such as incineration or gasification, Raven touts a steam and carbon dioxide reformation process that does not involve any combustion, purportedly reducing emissions and producing more green hydrogen per ton of waste than competing processes. The goal also is to utilize the technology to produce more synthetic liquid fuels, including diesel and jet fuel, as well as other additives and solvents, such as naphtha, and even some electricity via microturbines.

Other partners include New York-based Hyzon Motors, Japan's Itochu Corp. and the Ascent Hydrogen Fund. Hyzon, which focuses on hydrogen fuel cell-powered commercial vehicles, and Raven plan to build up to 250 hydrogen production facilities worldwide. The first facilities with Chevron and the partners will be in the San Francisco area. The plan is for the renewable fuel production sites to be built at landfills to produce fuel for northern California hydrogen fuel stations and for Hyzon's hydrogen hubs.

Brazil talks up gas pipeline to tap Argentine shale reserves

(Reuters; Aug. 19) - Brazil is negotiating with Argentina on the construction of a billion-dollar pipeline from the Vaca Muerta shale gas reserves, Brazilian President Jair Bolsonaro said on Aug. 19. Speaking to supporters on social media, he said the pipeline from Argentina was one of the options his government is looking at to reduce the price of natural gas in Brazil. "We are in negotiations with Argentina. Gas from Vaca Muerta. It will happen one day," Bolsonaro said in his weekly live broadcast.

Argentina's ambassador in Brasilia last year proposed building the pipeline in meetings with Bolsonaro and his Mines and Energy Minister Bento Albuquerque. Argentina is proposing a pipeline running 888 miles from the shale gas reserves in the Neuquen province to the border with Brazil at Uruguaiana, and an additional 400 miles from there to the city of Porto Alegre, connecting to southern Brazil's gas distribution network. Bolsonaro did not say how the project would be funded. The costs have been estimated at $3.7 billion for Argentina and an additional $1.2 billion for the Brazilian section.

Mexico alleges corruption, bans two oil traders until at least 2024

(Bloomberg; Aug. 20) - Vitol Group and Trafigura Group — both barred from new oil-trading business with Mexico’s state producer for alleged corruption — will be subject to the ban until at least the end of 2024 while the government reviews the conduct of other commodity traders, Energy Minister Rocio Nahle said. Pemex won’t give new work to Vitol and Trafigura, two of the world’s largest commodity traders, for at least the rest of Andres Manuel Lopez Obrador’s six-year term, Nahle told Bloomberg News.

The government is reviewing other oil-trading firms’ conduct and will suspend work with any company found to have committed wrongdoing, Nahle said. In recent years, the top commodity traders have faced bribery and corruption investigations in a worldwide crackdown spanning jurisdictions from the U.S. and Switzerland to Brazil and Mexico. Lopez Obrador swept to power on pledges to revive Mexico's state oil giant to its former glory and reduce the influence of private operators that he characterized as corrupt.

Trafigura's compliance policies and procedures have been fully reviewed and found by an independent external counsel to meet the highest standard required by law across all countries in which it operates, a spokesperson for the firm said. Representatives from Vitol didn't respond to requests for comment. In December, Pemex's trading arm suspended new business with Vitol after the firm agreed to a $160 million settlement over charges that it plotted to pay bribes in Brazil, Mexico and Ecuador. The allegations included bribes paid to Pemex officials as recently as last year.