Oil and Gas News Briefs
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Oil Search agrees to merger with Australian producer

(Bloomberg; Aug. 2) - Australia's second- and third-biggest oil and gas companies are set to merge to become one of the largest in the region and in the top 20 globally. Oil Search on Aug. 2 said it had agreed to an improved all-share offer from Santos that would give Oil Search equity holders about 38.5% of the merged group. The combined entity would have a market capitalization of about $16 billion, vying with Woodside Petroleum to be Australia's biggest independent liquefied natural gas producer.

The announcement comes less than two weeks after Oil Search rejected an earlier proposal. The merger would combine Oil Search's operating assets in Papua New Guinea with Santos' gas portfolio in Australia, which includes the Gladstone LNG export facility in Queensland and the Darwin LNG plant in the Northern Territory. Santos also has a stake in the same Exxon-operated Papua New Guinea LNG project as Oil Search. Together, the companies sold 135 million barrels of oil equivalent in 2020, almost half of which was gas from the $19 billion PNG project, which started up in 2014

Combining the two companies would improve the alignment of growth projects in PNG, Santos said. Oil Search is a partner in the TotalEnergies-led Papua LNG project, which is targeting first gas in the latter half of the decade and plans to use processing infrastructure at Exxon's plant, more than doubling the country's export capacity. The pair's diverse portfolio of assets would help reduce exposure to operational risks and provide a strong platform for sustainable growth, Santos said. Oil Search holds 51% of the Pikka oil development in Alaska, which could cost $3 billion in its first phase.

Pipeline builder wants LNG Canada to pay for higher costs

(Bloomberg; July 29) - A Shell-led effort to build a C$40 billion (US$32 billion) liquefied natural gas project in Canada is threatened with another delay amid a dispute over who will bear the escalating cost of a pipeline to supply the plant. TC Energy, builder of the pipeline that will feed the LNG Canada plant in Kitimat, British Columbia, warned July 29 it may suspend "certain key construction activities" on the pipeline as it quarrels with the project's backers over "recognition of certain costs and the impacts on schedule."

Calgary-based TC Energy didn't say how much costs have increased. In early 2020, the estimated price tag for the pipeline was C$6.6 billion. Work on the LNG plant, billed as the largest private-sector investment in Canada's history, began in 2018 after years of delays due to high costs and regulatory hurdles. The project, owned by a consortium that includes Shell, Malaysia's Petronas, Mitsubishi, PetroChina and Korea Gas, will send as much as 14 million tonnes a year of LNG to energy-consuming markets in Asia.

But the work to build the line from northeastern B.C. has faced protests and COVID-related delays, driving up costs significantly, TC Energy said. It wants to include the added costs in the final pipeline tolls. TC Energy is in discussions with LNG Canada to resolve the disagreement, Tracy Robinson, the pipeline company president of Canadian gas, said on an earnings call. In early 2020, protests by Indigenous groups along the route grew into a Canada-wide protest that blocked trains from moving goods and passengers across the country. Then after the COVID-19 pandemic started, the number of workers building the pipeline was restricted by the B.C. government, slowing work.

LNG developer says latest sales deal allows it to focus on financing

(Natural Gas Intelligence; July 29) - Tellurian on July 29 said it has secured enough off-take commitments to support the first phase of its proposed Driftwood liquefied natural gas export project in Louisiana after signing a deal with Shell to take 3 million tonnes per year. The developer has not made a final investment decision to go ahead with the project, but the agreement with Shell, the world's largest LNG trader, now allows it to focus on financing for the venture, planned for 27 million tonnes at full build-out.

"Tellurian will now focus on financing Driftwood, in order to give Bechtel notice to proceed with construction in early 2022," CEO Octávio Simões said. The latest deal is the third finalized since May, totaling 9 million tonnes. Like the others it signed with global traders Vitol and Gunvor, Tellurian would supply Shell with LNG for 10 years at prices linked to the Japan-Korea Marker and Dutch Title Transfer Facility benchmarks. The prices would be netted back to the Gulf Coast to exclude shipping costs.

Unlike other U.S. LNG supply deals that pass through commodity risk to off-takers that either buy the gas for liquefaction or pay prices linked to U.S. Henry Hub plus other fees, Tellurian would be exposed to the spread between U.S. prices for the gas it buys for liquefaction and the Asian and European prices in its deals with Shell and the others. While it produces gas in the Haynesville Shale, Tellurian doesn't have enough reserves to fully supply the first phase of the project and will have to buy gas on the market.

Big Oil making big money, but not adding to capital budgets

(The Wall Street Journal; July 30) - Big oil companies are raking in their highest profits since the onset of the coronavirus pandemic, but they plan to continue spending sparingly to boost production despite higher commodity prices. ExxonMobil reported $4.7 billion in second-quarter profit July 30, while rival Chevron reported $3.1 billion in quarterly profit. The results represented a dramatic turnaround from a year earlier, when

Exxon reported a quarterly loss of $1.1 billion and Chevron lost $8.3 billion as demand for oil and gas plummeted due to the closing of economies worldwide due to the virus.

Some of the largest European oil companies also reported strong results earlier in the week. The industry has recovered from unprecedented losses in 2020 as economies have reopened this year, sending oil prices surging to their highest levels in two years. Still, none of the major western producers said they would increase capital spending, as the companies face pressure from investors to moderate their growth and clean up their emissions amid concerns about growing regulations and climate change.

Exxon cut its annual capital budget last year from $25 billion to $19 billion or less. It said July 30 its capital expenditures this year will be closer to $16 billion and that its oil and gas production was down 2% from the same period last year. Chevron said July 30 it, too, wouldn't raise capital spending. Chevron previously said it would increase annual production at about 3% or less through 2025 and give priority to returning money to shareholders. The restrained spending is an overture to investors who fled the sector after a decade of poor returns and longer-term concerns about the future for fossil fuels.

OPEC oil production in July highest since April 2020

(Reuters; July 30) - OPEC oil output rose in July to its highest since April 2020, a Reuters survey found, as the group further eased production curbs under a pact with its allies and top exporter Saudi Arabia phased out its own voluntary supply cut. The Organization of the Petroleum Exporting Countries pumped an average of 26.72 million barrels per day in July, the survey found, up 610,000 barrels from June's revised estimate. Output has risen every month since June 2020, other than in February.

OPEC and allies, known as OPEC+, have been unwinding record output cuts agreed in April 2020 as demand and the global economy recover. With oil prices rising to a 2½-year high, OPEC+ decided this month on further hikes starting in August. The OPEC+ agreement allows for a 360,000-barrel-a-day increase in OPEC output in July versus June, while Saudi Arabia pledged to add 400,000 as the final step in a plan to unwind a 1 million-barrel voluntary cut it made in February, March and April.

New Mexico's oil production tops North Dakota for 2nd place

(Bloomberg; July 30) - New Mexico's oil output surged to a record in May, highlighting the Permian Basin's role as the shale industry sees some recovery from the pandemic. The state produced about 4% more crude in the month to reach a record 1.22 million barrels a day, according to federal data released July 30. It topped North Dakota to become America's second-biggest onshore oil supplier. New Mexico has churned out more than North Dakota for three straight months, the longest stretch since 2008.

New Mexico’s rising status as a key supplier reflects its cost advantage. U.S. oil and gas companies have been judicious in raising output after many producers pledged to cap spending and focus on returning more capital to shareholders. To that end, the Permian’s New Mexico region is being favored over North Dakota, where higher production costs have historically curbed profits.

The promises on capital restraint are likely to hold further production gains in check, even with higher oil prices providing an incentive to expand. In its latest earnings report, Chevron which has sizable acreage in New Mexico, expects its Permian output in 2021 to be comparable to 2020 despite announcing it would be adding more rigs and completion crews through the rest of this year. U.S. oil production stood at 11.2 million barrels a day in May, nearly a million barrels a day less than the same month in 2019.

Pakistan bet wrong on LNG prices and pays high cost

(Bloomberg; July 29) - Cash-strapped Pakistan’s bet that liquefied natural gas prices would go down has failed, forcing the South Asian nation to pay more than ever for the power plant fuel or risk blackouts. Importer Pakistan LNG this week bought four cargoes for September delivery at around $15 per million Btu, the highest since the nation began imports in 2015, according to people with knowledge of the matter.

Pakistan’s power generators will be the main consumers of the latest cargoes, without which there was a risk that the nation wouldn’t have enough electricity, according to the sources, who requested anonymity to discuss private details. The high costs are also a strain on the budget, with surging energy and commodity prices pushing import costs to a record high in June.

The price hikes have come amid a global supply crunch that has sent rates from the U.S. to Europe surging as importers compete for a finite amount of available fuel. Dutch gas, the benchmark for Europe, is trading at a record high as nations in the region struggle to refill rock-bottom inventories. The high prices are a blow for Pakistan, which along with other developing nations built LNG import strategies on the premise that the fuel would be abundant and cheap for the foreseeable future. That changed this year — the current spot price for Asian LNG is trading roughly 67% above the 10-year average.

Oil and gas industry lobby group caught amid competing interests

(The Wall Street Journal; July 28) - The American Petroleum Institute, Washington’s biggest lobby for the oil and gas industry, spent decades fighting almost every green initiative in its path. Then in March, it signaled an about-face. It released its “Climate Action Framework,” a set of new policy prescriptions to lower emissions and support cleaner fuels. The core of the plan called for two policies API had opposed for years:

more regulation of methane, a potent greenhouse gas that leaks from oil and gas operations; and a price on carbon, a financial penalty on all carbon dioxide emissions.

Even by the standards of Washington, it was a remarkable shift. And it made nobody happy. Democrats' embrace of alternative energy and skepticism of the oil industry continue unchanged. Republican allies, long a bulwark for the industry, feel alienated by the API move. Meanwhile, Congress is weighing hundreds of billions of dollars in spending — some of it to be raised from new fines and tariffs levied on oil-and-gas companies — that would boost utilities and wind- and solar-power developers.

Within API, the pressure has fanned divisions nearly as old as the oil industry itself. The giants including Shell, BP and ExxonMobil have demanded API do more to pivot from carbon-intensive fuels and embrace regulation. But many smaller members — refiners and independents — see those calls as threats to their businesses and an attempt by larger members to consolidate market power. It has become increasingly difficult for the century-old organization to strike consensus among its 600 members as companies diverge over how to respond to concerns over climate change and government actions.

Japanese company will take big loss on sale of oil sands stake

(Reuters; July 29) - Japanese state-backed oil producer Japan Petroleum Exploration warned on July 29 of a 90 billion yen ($820 million) loss from exiting its Hangingston oil sands project in Canada. JAPEX has agreed to sell its entire stake in the oil sands project to Canadian oil sands developer and operator HE Acquisition, as profits from the project have been weaker than expected with volatility in local prices and tight pipeline capacity, company spokesperson Yuki Goto said.

The decision also reflected expected waning demand for the fuel in the global push to cut carbon emissions, Goto said. The company did not disclose the sale price. The move follows several global oil majors that have rushed to sell Canadian oil sands assets over the past four years over concerns ranging from high production costs and emissions to scarcity of capital for fossil fuel projects.

Earlier this month, JAPEX said it was considering a sale among other options for its Hangingston oil sands project, and two sources told Reuters the Japanese company was seeking a buyer for its 75% stake in the oil sands facility. JAPEX unit Japan Canada Oil Sands is majority owner of Hangingstone, with Chinese state-owned oil giant CNOOC holding the remaining 25%. The project has been producing around 20,000 barrels per day of bitumen, an extra-heavy oil, at Hangingston, a steam-assisted oil production site that started up in 2017, JAPEX said.

Climate activists step up protests against fracking, LNG terminals

(Reuters; July 30) - Climate activists will try to shut down liquefied natural gas terminals and protest fracking plans in several countries this weekend, as a post-lockdown push to influence the agenda ahead of November's climate summit in Scotland kicks off in earnest. The school strikes and city-stopping actions that pushed global warming to the top of the political priority list before the COVID-19 pandemic are also set to resume in coming weeks. The grassroots Extinction Rebellion group has said it will launch two weeks of actions against new fossil fuel investments in London next month.

The Fridays For Future student movement, meanwhile, has called a global school strike for Sept. 24, which falls during the U.N. General Assembly where leaders will discuss climate change. "Global citizens are at the beginning of an escalation of actions and activities," said Asad Rehman, a spokesman for the coalition, an umbrella for unions, aid agencies, faith and green groups working on climate justice.

A global day of protest for climate equity will take place on Nov. 6 in the middle of the summit, added Rehman, who is also director of anti-poverty charity War on Want. This weekend, up to 3,000 activists from Germany's Ende Gelaende, a green civil disobedience movement, plan to blockade the Brunsbuttel liquefied natural gas import terminal in a bid to stop operations. Campaigners will also take to the streets in a dozen countries including Argentina, Ireland, Bolivia and Canada.

Private-equity firm will convert Canadian refinery to renewable fuels

(Reuters; July 26) – Private-equity firm Cresta Fund Management has agreed to buy a controlling stake in the idled Canadian 135,000-barrel-per-day Come by Chance refinery, a fund representative said July 26, with the aim of converting the Newfoundland plant to renewable fuels production. The refinery, owned by North Atlantic Refining, has been idled for more than a year.

Several refiners have announced plans to convert to renewable fuels production to remain viable as both Canada and the U.S. try to reduce carbon emissions. The first phase of the conversion would change the Come by Chance refinery to a facility capable of producing 14,000 barrels of sustainable aviation fuel and renewable diesel daily by about mid-2022, Chris Rozzell, Cresta's managing partner, said in an email.

A second phase will seek to double the capacity of the refinery and incorporate the ability to produce green hydrogen — where renewable energy such as wind or solar powers the extraction of hydrogen — Rozzell said. Come by Chance has been looking for a new owner since Irving Oil backed away from a purchase agreement last year.

[TC Energy plans switch to renewables to power pipeline network]

(Reuters; July 29) – Calgary-based pipeline operator TC Energy could spend billions of dollars on its plans to lower emissions by switching to renewable energy to run its huge network of U.S. and Canadian oil and gas pipelines. TC Energy, which ships oil and gas through 62,000 miles of pipelines, has been encouraged by a better-than-expected response to a request in April for information on wind power for projects in the U.S.

“We started just with our liquids pipeline and it gives us really a lot of confidence that we’ll be able to pivot quickly to our natural gas pipeline business both in the U.S. and in Canada,” said Corey Hessen, TC Energy’s president of power and storage. TC’s decision to power pipelines with wind and solar, instead of gas, is similar to smaller-scale plans by rival Enbridge and would go some way toward meeting investor demands to improve its environmental performance.

Canada’s rising carbon price could add a significant expense to TC Energy’s costs if it fails to reduce its emissions. Canada has pledged to cut emissions 40% to 45% from 2005 levels by 2030 and will hike the price of carbon from $40 a ton currently to $170 a ton by 2030. It also charges industrial carbon emitters like TC under an output-based pricing system. TC’s scope 1 and 2 emissions from its oil and gas pipelines — emissions it produces or that are produced to supply it with power — were nearly 14 million tonnes in 2019, according to the company website.

[FERC chairman addresses greenhouse gas reviews]

(S&P Global Platts; July 27) - Federal Energy Regulatory Commission Chairman Richard Glick faced questioning from Republican House members July 27 on whether his increased attention to greenhouse gas emissions would prompt the commission to reject applications for interstate natural gas projects. The questioning came during an oversight hearing on the commission's role in the changing energy landscape, held by the House Energy and Commerce Committee's energy subcommittee.

Since becoming chairman in January, Glick has worked to increase consideration of climate impacts in FERC's gas pipeline reviews, an area that continues to divide the commission. West Virginia Republican Rep. David McKinley asked Glick what level of GHG emissions would be acceptable to allow FERC to approve a pipeline, since the commission has not yet laid out metrics for determining the significance of emissions.

Glick frequently pointed to appeals court rulings to explain the shifts in FERC's approach. A federal Court of Appeals has "twice told us that we actually have to assess these reasonably foreseeable greenhouse gas emissions," Glick said. He avoided identifying a threshold of acceptable GHG gas emissions for a project, saying, "I don't want to prejudge the matter because it's currently being litigated at FERC." Glick said the courts on "numerous occasions" have told FERC that if environmental concerns are significant enough to outweigh benefits, and those impacts could not be mitigated, then FERC could reject a project, though Glick noted FERC had not yet done so.

U.S. coal producers benefit from high natural gas prices

(Reuters; July 29) - Rising natural gas prices — around $4 per thousand cubic feet in the past week, double of a year ago — are encouraging U.S. electricity generators to raise output from coal-fired units slightly this summer, providing a temporary reprieve for the beleaguered coal mining sector. U.S. coal production, which was already in long-term decline, slumped during the first wave of coronavirus infections and lockdowns, but has been trending upward since the middle of last year as the economy has recovered.

Mine output averaged 11.7 million short tons per week over the five weeks ending on July 17, up from 9.3 million tons at the same point a year ago, though still down from 13.1 million tons in 2019. Production is around 18% below the pre-pandemic five-year average, but that is an improvement on a deficit of 40% at the end of May last year, according to estimates prepared by the U.S. Energy Information Administration.

Power producers' coal stocks have been relatively plentiful, so the increase in shipments implies generators are boosting orders and preparing to run units for more hours in the months ahead. Over the past decade, many coal-fired units have closed, while the remainder have run fewer hours, cycling on and off for shorter periods, sometimes at less than full-load. The residual coal fleet is generating less efficiently because units spend a higher proportion of their time warming up, synchronizing to the grid, and ramping up and down, rather than producing steadily at full output.

Rising coal prices cause losses at China’s power companies

(Reuters column; July 29) - China's coal-fired power generators have seen profits evaporate amid surging domestic coal prices, with imports unable to provide much relief amid an ongoing unofficial ban on buying cargoes from major exporter Australia. Out of 10 listed coal-fired power companies, four reported losses and five others saw first-half profits plunge, said a report on China’s energy industry website BJX News on July 27.

The dramatic drop in profitability comes amid a surge in domestic coal prices, with data showing the benchmark price at Qinhuangdao in northern China at 1,009 yuan ($155) a tonne on July 28, the highest since the consultancy started collating data in 2011. Coal has more than doubled from 2020 when power demand slumped as China locked down much of its economy to combat the spread of the coronavirus pandemic.

The rise in domestic coal prices can largely be put down to strong gains in electricity demand as the economy rebounds from the pandemic, and muted growth in coal output amid increased checks to boost safety. China’s coal output slid 5% in June from the year-earlier month. Meanwhile, for the first six months of this year, coal imports were down 19.7% year-on-year, according to the data. One of the factors driving lower coal imports has been Beijing's unofficial ban on buying from Australia, the world's second-biggest shipper of thermal coal, amid an ongoing dispute with over a variety of issues.