Oil and Gas News Briefs
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Russia climbs to No. 2 oil supplier to U.S. in May

(Bloomberg; Aug. 4) - Russia is supplying more oil to the U.S. than any other foreign producer aside from Canada as American refiners scour the globe for gasoline-rich feedstocks to meet surging motor fuel demand. U.S. imports of crude and refined products from its former Cold War adversary surged 23% in May to 844,000 barrels a day from April, government data showed. Mexico was edged out of the No. 2 spot.

Russia has become a favored source for U.S. fuel makers largely because it produces ample supplies of semi-refined oils such as Mazut 100, an ideal feedstock for American refineries accustomed to handling thick, sludgy crude from Venezuela and the Mideast. Cargoes from the former dried up due to U.S. sanctions, and OPEC-orchestrated output limits have crimped shipments from the latter, leaving an opening for Russian exporters.

Russian feedstock "seems to be functioning as a good substitute for Venezuelan oil, particularly in the high-demand summer season," said Shirin Lakhani, a senior oil analyst at Rapidan Energy. Despite Russia's ascendance, it's no threat to Canada's preeminence as the largest foreign crude supplier to the U.S., as Canada accounts for almost half of U.S. imports, delivering almost five times as much as Russia.

Most of the U.S.-bound Russian crude has headed to the West Coast to feed refineries like Phillips 66's plant north of Seattle and California refineries owned by Chevron and Valero. Texas and Louisiana refineries also have been buying Russian oil products.

Court says FERC climate change review of LNG projects inadequate

(Reuters; Aug. 3) - A federal appeals court on Aug. 3 ruled that the Federal Energy Regulatory Commission must further analyze the impacts of proposed liquefied natural gas marine terminals on climate change and low-income or minority communities in Cameron County, Texas. In a victory for the community and environmental groups that had appealed FERC's decision to approve the Texas and Rio Grande LNG terminals, a unanimous panel of the U.S. Circuit Court of Appeals for the D.C. Circuit ruled FERC violated the National Environmental Policy Act with "deficient" environmental analyses.

The panel did not, however, vacate FERC's order. "This decision clearly demonstrates that the commission has the authority and obligation to meaningfully analyze and consider the impacts from (greenhouse gas) emissions and impacts to environmental justice communities," said FERC Chairman Richard Glick, who had dissented on the projects' approval. The two LNG projects plan to export natural gas from the Port of Brownsville to global markets. Neither project has reached a final investment decision.

Plaintiffs argued that the commission violated NEPA because it anchored its approvals in botched environmental reviews of the projects' greenhouse gas emissions. Writing for the panel, U.S. Circuit Judge Robert Wilkins agreed that FERC "failed to respond to significant opposing viewpoints concerning the adequacy of its analyses of the projects' greenhouse gas emissions." He said it should have responded to opponents' argument that regulations require FERC to use "methods generally accepted in the scientific community," such as the social costs, to gauge its contribution to climate change.

Analysts question what merged company will do with Alaska assets

(Australian Financial Review; Aug. 3) - A merged Santos-Oil Search would be likely to embark on asset sales, including possibly Oil Search's Alaska oil interests, and could slim down its beefed-up portfolio in Papua New Guinea, some analysts said. But any divestments would be from a position of strength, given the more robust balance sheet the combined company would have compared to Oil Search on its own.

"A stronger balance sheet will then provide a solid platform from which to invest in new development projects in Australia and Papua New Guinea. Capital reallocation within a larger portfolio, or strategic divestments, would be likely to smooth out future outflows," Wood Mackenzie research director Andrew Harwood said in the wake of the Aug. 2 news that the two Australia-listed companies have broadly agreed terms for a merger.

UBS energy analyst Tom Allen said he expects a merged Santos-Oil Search to focus its integration efforts in Asia and to consider divesting Oil Search's undeveloped Pikka oil project in Alaska. Oil Search already has a process underway to sell part of its 51% stake in the proposed US$3 billion project, a move which Santos is understood to support. However, it remains uncertain whether Santos would look to retain any stake in that venture, which appears an outlier in its Asia-focused portfolio.

RBC Capital Markets analyst Gordon Ramsay said he saw the diversification into oil in Alaska as "a good counter-balance" to Oil Search's overreliance on gas and LNG in PNG and suggested Santos may want to retain it. "We view Alaska as a ground-floor opportunity for Santos to become involved in a potentially very material asset with a substantial and growing reserve base," he said.

U.S. shale oil producers lose money on hedging bets

(Bloomberg; Aug. 3) - Shale explorers are facing almost $12 billion in lost revenue this year from bad bets on oil after a global rally, according to BloombergNEF. Of the 50

U.S. drillers surveyed by BNEF, Devon Energy, Pioneer Natural Resources and Diamondback Energy are on track to rack up the steepest losses, with more than $1 billion in underwater hedges apiece. It's the sector's worst hedging performance in records dating back to mid-2017. The group as a whole hedged almost one-third of estimated 2021 output and the practical impact is that they are locked in to reap about $5 less per barrel than the American benchmark crude, West Texas Intermediate.

"Personally, I actually prefer if you guys don't hedge," Paul Cheng, an analyst at Scotiabank, told Pioneer executives Aug. 3 on a conference call discussing second-quarter results. "If you look at whether it's a single company or the industry over 10 years, 20 years, 30 years, hedging is a losing-money proposition; I don't think the industry has ever made money."

As oil and gas producers fought to survive last year's historic oil-price collapse at the onset of the coronavirus pandemic, many used hedges to lock in prices for their 2021 output at around $50 a barrel, The Wall Street Journal reported Aug. 4, buying insurance against the possibility of having to ride out another crash. But the practice carries the risk of leaving money on the table in rising markets. "I'm surprised to hear analysts aren't asking the question to the [producers] that hedged, 'What happened?" Ryan Lance, CEO of ConocoPhillips, which does not hedge, said in an earnings call. "There could even be more cash flow if you hadn't hedged your position."

Massachusetts joins fight over phasing out natural gas in homes

(The Wall Street Journal; July 31) - Massachusetts is emerging as a key battleground in the U.S. fight over whether to phase out natural gas for home cooking and heating, with fears of unknown costs and unfamiliar technologies fueling much of the opposition to going all-electric. More towns around Boston are debating measures to block or limit the use of gas in new construction, citing concerns about climate change. The measures have encountered opposition from some homebuilders, utilities and residents in a state with cold winters and relatively high housing prices.

The Massachusetts debate encapsulates the challenges many states face in pursuing aggressive measures to reduce greenhouse gas emissions that may directly impact consumers. The cost of fully electrifying buildings varies widely throughout the country and has ignited debates about who should potentially pay more, or change their habits, in the name of climate progress. In New England, most homes are heated with fuel oil or natural gas, and gas or propane is used widely for cooking.

Major cities, including San Francisco, Seattle, Denver and New York, have enacted or proposed measures to ban or discourage the use of gas in new homes and buildings, two years after Berkeley, California, passed the first such prohibition in the U.S. in 2019. The efforts have sparked a backlash, prompting some states to make gas bans illegal. The fight comes as Massachusetts and other states across the country set goals to substantially reduce carbon emissions in the coming decades. Massachusetts earlier this year passed a law requiring the state to achieve net-zero emissions by 2050.

Natural gas could allow South Africa to turn away from coal

(Bloomberg; Aug. 2) – Power failures have become routine in South Africa. At the same time, the country wants to wean itself off the coal that generates more than 80% of its electricity and makes it the world's 12th-biggest source of greenhouse gases. Most of South Africa's power stations are near the end of their lives. An average of about 1,000 megawatts of capacity is set to be decommissioned annually over the next decade, which presents an ideal opportunity to begin overhauling the energy system.

The government aims to cut emissions to net-zero by 2050. Its blueprint envisions the construction of scores of solar- and wind-powered plants. But there are widespread doubts that those projects can happen fast enough, or be reliable enough, to replace coal. Which means a controversial fossil fuel remains part of the planned energy mix: natural gas. "Gas is an alternative. It can be a game changer," Mineral Resources Minister Gwede Mantashe said during an interview in Mozambique's capital, suggesting that new pipelines could be built to tap more gas from the country's offshore fields.

Plans to use gas to produce at least a quarter of almost 12,000 megawatts of additional power by 2030 are hotly contested. The fuel generates less than half the greenhouse gases than coal, but replacing the dirtiest fossil fuel with a cleaner one will make South Africa's emissions target difficult to meet. Financing for gas-fired plants may also be hard to come by. Several development finance institutions — crucial funders of many energy projects in Africa — are revising their investment mandates to exclude the fuel.

"Gas is seen as a bridge to transitioning South Africa away from coal, while allowing the country to maintain its goals of economic generation through industrialization," said Shridaran Pillay, Africa director at risk advisory service Eurasia Group. "I do not think that renewables in South Africa could be scaled to a level where they would provide the same opportunity to replace base-load generation in a way that gas can at this stage."

Coal power plants in Asia lose more funding sources

(The Wall Street Journal; Aug. 2) - Banks are cutting off funding for new coal-fueled power plants in poorer Asian countries, a move that could hasten the shift toward cleaner energy sources in some of the fastest-growing parts of the world. Asian financiers provide the bulk of funding for new coal projects in countries such as Vietnam and Bangladesh, after U.S. and European lenders largely stopped greenlighting coal deals over carbon-emissions concerns.

But most key financiers in Japan and South Korea as well as some in China have signaled in recent months that they too are planning to stop or slow the flow of money for projects outside their borders as their governments increasingly view overseas coal projects as risky investments. In mid-July, China's environment and commerce ministries advised some of the country's biggest overseas lenders against investing in coal, instructing them to include climate considerations in their project assessments.

Climate researchers have argued to political leaders that Chinese-backed coal plants or projects abroad could get shut down or canceled before investment costs or financing are recovered, and could expose lenders to reputational risks, people familiar with the matter said. In Japan, some important sources for coal-project financing in developing nations are also changing their policies. Mitsubishi UFJ Financial Group and the Japan International Cooperation Agency have put no-coal pledges in their lending and bond-issuance policies, prodded by climate concerns from activists and institutional investors.

Ivory Coast wants LNG-fueled power plant so it can avoid outages

(Reuters; Aug. 3) - Ivory Coast is in talks to build a 200-megawatt power plant fueled by liquefied natural gas as it seeks to avoid outages that rocked the country earlier this year, Mines and Energy Minister Thomas Camara said Aug. 3. A prolonged dry season reduced water levels at hydropower dams in May, leaving households and businesses without power, as well as cutting supplies to neighboring West African countries.

"We have taken steps to ensure that this circumstantial situation does not repeat itself," he told a news conference, announcing plans for the LNG plant. The ministry will share further details on the cost and timeframe for the plant's construction once discussions are concluded, he said. The outages in May were a result of a generation deficit of about 200 megawatts, or nearly 10% of the national power company's capacity.

U.S. natural gas prices double of a year ago amid tight supply

(The Wall Street Journal; Aug. 3) – The heat wave that scorched the West has dissipated, but natural gas prices have yet to cool off. The power-generation fuel has been in high demand to run air conditioners and make up for parched hydropower markets, and forecasters expect booming exports and more steamy weather to keep supplies down and prices up. Gas futures have gained 37% since April and are more than twice the price of a year ago. They settled Aug. 3 at $4.027 per million Btu.

However, the highest summer natural gas prices since 2014 have yet to entice producers to send many more drilling rigs into their fields. After years of flooding the market, the big Appalachian producers that drive the U.S. market are sticking to plans to maintain relatively flat output, accumulate cash and keep gas prices high enough for profits. The austerity in Appalachia has analysts and traders predicting lean inventories heading into heating season. Price outlooks on Wall Street are being revised higher.

“We did not expect the move to $4 per million Btu so quickly,” JPMorgan Chase analysts wrote to clients. “The U.S. gas market has found itself in an uncomfortable situation of potentially entering the winter withdrawal season with the lowest level in storage since 2018.” EQT Corp. CEO Toby Rice said the Pittsburgh company would wait to increase its gas output until futures prices topped $3 for two or three years out. March 2023 contracts now cost less than $3. Even if long-term prices go high enough, the largest U.S. gas producer wouldn’t increase production by more than 5%, he said.

China opens LNG import terminals for third-party access

(Reuters; Aug. 2) - China's state-run oil and gas infrastructure giant PipeChina said on Aug. 2 it will soon start accepting bids from firms that want to import liquefied natural gas through its receiving terminals, in a new initiative to broaden access to gas facilities. PipeChina will solicit the bids between August and October from companies that want to use seven of its terminals for five to 20 years, starting in April 2022.

"This marks another innovation to provide fair and open access to LNG terminals," PipeChina said in a statement on its official WeChat account, adding that this would help boost utilization of terminals and encourage importers to secure steady, long-term supplies. The terminals open for third-party access include Dalian, Tianjin, Yuedong, Diefu, Beihai, Yangpu and Fangchenggang. Combined, these terminals are able to take in 27.6 million tonnes of LNG annually, about 29% of China's total import capacity.

LNG demand in Asia, South America drives up prices

(Bloomberg; Aug. 3) - Liquefied natural gas shipments to Asia and South America surged in July, with buyers willing to pay higher prices than European importers amid strong demand. Asian imports rose 16% in July from a year earlier, and shipments to South and Central America nearly doubled to a record high, ship-tracking data compiled by Bloomberg show. European purchases fell to the lowest since January. Overall global LNG exports — mainly from Australia, Qatar and the U.S. — jumped 12%.

LNG demand in Asia was mainly driven by hot weather in China, Japan and South Korea that increased air conditioning use, boosting consumption of the electricity feedstock. A drought in Brazil, meanwhile, slashed hydropower output, forcing utilities there to ramp up gas-fired power generation. U.S. exports of the fuel more than tripled from last year as end-users maximized contract volumes.

European utilities have struggled to replenish inventories — currently at the lowest level for this time of year in over a decade — due in part to a drop in LNG flows to the region. And while that has sent European spot prices to a record, Asian importers continue to increase bids to win supply. To avoid a power crunch, Pakistan agreed to buy LNG at the highest levels since it started importing the fuel in 2015. Price-sensitive end-users in India and China have snatched up cargoes at the highest seasonal levels in eight years.

Canadian newspaper editorial questions future of LNG

(The Globe and Mail editorial; Canada; Aug. 3) - The history of liquefied natural gas in Canada is littered with multibillion-dollar schemes that churn through years of development but eventually founder when backers realize a project's economics don't add up. Recent examples are big and small. In March, Chevron abandoned plans for Kitimat LNG in northwestern British Columbia. In July, Pieridae, a Calgary start-up, said cost pressures forced it to shelve an LNG proposal in Nova Scotia.

Failing to attract billions of dollars from investors to build an LNG export plant is typical, in Canada and elsewhere. The projects are complicated, the global market is intensely competitive and the outlook for future demand is modest. In some ways, the story of Énergie Saguenay, a proposed C$9 billion plant north of Quebec City that would have shipped Alberta gas overseas, is the same. Backed by a start-up, it was struggling to drum up capital. What's different is the Quebec government rejected the plan.

The project, Quebec's Environment Minister said, "has more disadvantages than advantages." The political-regulatory rejection — rather than the quiet end of a plan because of a lack of money — highlights the environmental negatives of LNG. The regulatory rejection sharpens focus on tough decisions that will face Canada, and the world, in the years ahead. LNG has been touted by industry and some governments as a bridge fuel to help reduce global emissions. But the veracity of that promise, and the ever-increasing risks brought by climate heating, are rapidly changing the calculus.

Petronas looks at building $1.3 billion petrochemical plant in Alberta

(Calgary Herald; Aug. 3) - The Canadian division of Malaysia's state-owned oil giant Petronas plans to study the feasibility of building a C$1.3 billion petrochemical plant in central Alberta with the goal of exporting hydrogen to an Asian markets. Petronas announced Aug. 3 it has teamed up with Japan's Itochu and an unnamed Calgary-based pipeline company on a feasibility study for a facility capable of producing 1 million tonnes of ammonia per year while capturing the carbon emitted in the process.

"Ammonia is a very efficient means for the transportation of hydrogen," Petronas Energy Canada CEO Mark Fitzgerald said. The combination of nitrogen and hydrogen, which in this case would be sourced from Petronas' natural gas operations in northeastern British Columbia, produces ammonia. "At the end point, the user, which in this case would be markets overseas, would split it into nitrogen and then hydrogen, which would be used as a fuel source," Fitzgerald said, adding the project would be considered "blue ammonia" or "blue hydrogen" because it would capture associated carbon emissions.

Petronas and Itochu would jointly market the ammonia produced at the facility in Asian markets, "potentially for thermal power generation in Japan, replacing hydrocarbon-based fuels for power plants, steel, chemical production and other applications." Japan's economy, trade and industry ministry has a goal of securing 30 million tonnes of ammonia by 2050 in an effort to reach a net-zero carbon emissions goal by 2050.

Iraq may take over Exxon, Lukoil stakes in major oil fields

(Argus Media; Aug. 1) - Baghdad could take over stakes in oil fields operated by ExxonMobil and Lukoil, Oil Minister Ihsan Abdul-Jabbar Ismail said, as some of Iraq's biggest foreign partners push to exit the country. The Russian firm confirmed in July it was holding talks with Baghdad to reduce its 75% operating stake in the 13-billion-barrel West Qurna-2 field. The oil ministry has so far vetoed a sale to potential investors, including China, but is now saying it could be willing to take back the unwanted stake.

"Understanding the company's motives" helped the oil ministry to find a possible solution, Ismail said. Lukoil said the reason it wanted to sell its stake to Chinese firms is that "investment in Iraq is not appropriate for the major investors and that they either look for other markets or partners in the renewable energy," according to Iraq's oil ministry. But while Lukoil plans to reduce its stake at West Qurna-2, it is still working at its Block 10 license where it will soon start production of 30,000 barrels per day. Lukoil operates the block with a 60% share, with Japan's Inpex holding the remaining 40%.

The oil ministry is also working on buying shares in the West Qurna-1 field from ExxonMobil. The U.S. major had planned to sell its 32.7% stake in the 500,000-barrel-per-day oil field to PetroChina and CNOOC, but Iraq has blocked the sale, pushing ExxonMobil to file an arbitration case. In addition, BP plans to pull out of the 1.5-million-barrel-per-day Rumaila project — Iraq's single biggest producing field — which it operates with a 47.63% holding. This trend began in 2016 when U.S. independent Occidental sold its stake in the 4-billion-barrel Zubair field.

Russian oil, condensate production up — first time in three months

(Bloomberg; Aug. 1) - Russia increased oil production in July for the first time in three months, after more generous quotas were extended to the entire OPEC+ alliance. Russian producers pumped an average of 10.46 million barrels per day of crude and condensate last month, according to preliminary data from the Energy Ministry. That's 0.3% higher than in June, Bloomberg calculations show.

It's difficult to assess Russia's compliance with the output deal between the Organization of Petroleum Exporting Countries and its allies, as the Russian data does not provide a breakdown between crude and condensate, which is excluded from the OPEC+ deal. If Russia produced the same level of condensate as in June — about 900,000 barrels a day — then daily crude-only output would be some 9.56 million barrels, slightly above its July quota of 9.495 million barrels.

Under the latest deal with OPEC+, Russia can increase its daily crude production by 100,000 barrels each month as its share of the group's overall 400,000-barrel gain.

Ghana may borrow $1.65 billion to develop its oil

(Bloomberg; Aug. 2) - Ghana is seeking parliamentary approval to borrow as much as $1.65 billion to accelerate oil and gas exploration by acquiring and developing assets. The investment push comes after ExxonMobil pulled out of an offshore prospect in the West African country in May, dealing a blow to its burgeoning oil and gas sector. There are also rising concerns that the push for lower-carbon energy may reduce the value of Ghana's hydrocarbon resources over time.

The nation estimates it will need as much as $1.3 billion to buy a 37% stake in the Deep Water Tano/Cape Three Points asset operated by Aker Energy and a 70% stake of the South Deep Water Tano field operated by AGM Petroleum Ghana, according to a parliamentary proceeding on Aug. 2. The time has come for Ghanaians to "become masters of our own destiny when it comes to our oil and gas resources," Charles Adu Boahen, Minister of State at the Ministry of Finance, told Bloomberg by phone.

"There will certainly be the demand for fossil fuels in countries outside of the West that will continue to use diesel- and petrol-fired cars and consume power generated from fossil fuels for the foreseeable future," Boahen said. If approved, the stakes would be acquired through a Ghana National Petroleum Corp. subsidiary. Ghana's Finance Minister Ken Ofori-Atta warned last week that the country could be "left with stranded assets," if it didn't accelerate exploration amid the transition to renewable energy.

Persian Gulf oil producers sell stakes in their assets to raise billions

(Reuters analysis; Aug. 3) - Saudi Aramco and other Gulf oil producers are following in the footsteps of Abu Dhabi with plans to raise tens of billions of dollars through sales of stakes in energy assets, capitalizing on a rebound in crude prices to attract foreign investors. The moves, in a region traditionally possessive of its refineries, power plants and pipelines, highlight the pressure on petrostates to raise funds to diversify their sources of revenue and to bolster national finances hit by a recent slump in oil prices.

After selling a significant minority stake in its oil pipelines to foreign investors for $12.4 billion in June, Saudi Aramco is weighing selling downstream and upstream assets, two people familiar with the matter said. Aramco is looking to sell its gas pipelines under a leaseback arrangement, and could offer stakes in refineries, power plants, and potentially export terminals in the future, the people said. Stakes in upstream projects such as hydrogen, could also be offered to strategic investors, one of the sources said.

Smaller producers Oman and Bahrain are also contemplating similar asset sales, other sources said. "All of the oil producers are looking to recycle capital that they have tied up in infrastructure assets and deploy that for other things," said an executive at an energy-focused investment company, who asked not to be named. "Private investors find these assets attractive." Abu Dhabi National Oil Co. was the first regional player to seek outside investment, forming partnerships to raise $30 billion the past four years.