

Oil and Gas News Briefs

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Oil Search commits to engineering, design work on Alaska project

(Australian Financial Review; Feb. 22) - Oil Search has taken a significant step toward building its first big project outside its stake in Papua New Guinea LNG, committing to major engineering and design work on its US\$3 billion Pikka oil project on Alaska's North Slope. The project, which is expected to break even at less than US\$40 per barrel for Brent crude, including a 10% return, was among the oil and gas ventures worldwide put on hold after prices crashed in March. The decision was expected, as Oil Search had said last fall it planned to begin front-end engineering and design in early 2021.

A final go-ahead for construction is targeted for later this year after Oil Search finds a third partner to join it in the venture alongside Repsol of Spain. The commitment on engineering involves the first phase of the revamped project, which will be able to produce 80,000 barrels a day of oil. The design was reworked last year to make it more economic, and to carry it out in phases, cutting the initial capital cost by half. Production is due to start up in 2025. Oil Search wants to sell a 15% stake in the project this year to help cover costs and reduce risks. Repsol is also expected to sell part of its stake.

"We recognize the importance of a successful sell-down of a 15% interest in the Pikka development area and on securing project-level financing to fund at least 50% of the initial Phase 1 project costs," Oil Search managing director Keiran Wulff said. He said the first phase of the project would provide revenues to support further development later on, developing more of the venture's estimated North Slope resource of almost 1 billion barrels. The Pikka project is Oil Search's only major investment planned for this year amid a delay at its proposed LNG expansion in Papua New Guinea.

Saudi Arabia, Russia of different minds on oil production increase

(Bloomberg; Feb. 20) - Saudi Arabia and Russia are once again heading into an OPEC+ meeting on opposite sides of a debate about the oil market. Riyadh is publicly urging fellow members to be "extremely cautious," despite prices rebounding to a one-year high. In private, the kingdom has signaled it would prefer that the group hold output steady, delegates said. Moscow is indicating it wants to proceed with a supply increase.

The positions mirror those taken at recent meetings, but this time the Saudis have a new bargaining chip — 1 million barrels a day of voluntary cuts. The kingdom pledged

to make those extra curbs only in February and March, but some see signs that could change as the negotiations get underway. “The key question for me is how they return the Saudi barrels,” said Bill Farren-Price, a director at research firm Enverus and veteran observer. The Saudis could potentially use them as leverage for a deal, he said.

Ten months after slashing crude production when COVID-19 crushed global demand, the Organization of Petroleum Exporting Countries and its allies are still withholding 7 million barrels a day from the market, about 7% of global supply. It’s been a sacrifice, with members such as Iraq and Nigeria struggling economically as exports dropped. But it has yielded results, reviving prices to above \$65 a barrel and shoring up producers’ battered revenues. When OPEC+ gathers on March 4, it will discuss whether to provide more crude to the market in April, and whether that would risk derailing the price rally.

U.S. oil demand mostly back to normal — except jet fuel

(Reuters columnist; Feb. 19) - U.S. petroleum consumption and inventories have returned to normal after the pandemic and Saudi-Russian price war last year with the big exception of jet fuel, where demand remains suppressed by travel restrictions. Market rebalancing has been completed earlier than seemed likely a few months ago, as a result of a strong recovery in manufacturing, progress with vaccinations, hurricane disruptions to crude production, and extra output cuts by OPEC+.

With the exception of jet fuel, most other indicators of production, consumption, and inventories should return to normal by the end of the first quarter, rather than the end of the second, as seemed likely last autumn. Excess inventories of crude and refined products built up during the second quarter of last year in the first wave of the pandemic and the tussle between Saudi Arabia and Russia have been largely absorbed.

Stocks outside the U.S. Strategic Petroleum Reserve stood at 1,301 million barrels last week, not significantly higher than 1,287 million barrels at the same point in 2020 and 1,258 million in 2019. On any measure, U.S. petroleum inventories are back within normal ranges, suggesting all or nearly all of the oversupply from last year has been digested. But despite the overall rebalancing, jet fuel will remain a hole in the global market until travel restrictions are eased and international passenger aviation resumes.

India urges OPEC+ to produce more oil, help lower prices

(Reuters; Feb. 17) - India has urged OPEC and allied oil producers to ease their production cuts as higher crude prices are hitting fuel demand in Asia's third-largest economy and adding to inflation, Oil Minister Dharmendra Pradhan, said Feb. 17. “The

price-sensitive Indian consumers are affected by rising petroleum product prices," Pradhan said ahead of a March 4 policy-setting meeting of the Organization of the Petroleum Exporting Countries and allies, known as OPEC+.

Oil prices have been supported in the past few weeks by OPEC+ supply curbs and hopes of a demand rebound with more COVID-19 vaccinations. Benchmark Brent crude rose to \$64.72 a barrel Feb. 17. Retail prices of heavily taxed gasoline and gasoil in India have touched record highs due to the spurt in global prices. India, the world's third-biggest oil consumer and importer, meets over 84% of its oil needs through imports.

Besides hitting fuel demand, higher oil prices could potentially hinder economic growth in developing countries including India, Pradhan said. "The rising oil prices during the last few weeks is hurting the fragile global economic recovery due to significant demand contraction, which might even mirror the impact of COVID-19 in its initial stages."

Could be weeks before Texas refineries resume normal operations

(Bloomberg; Feb. 19) - Four of the largest refineries in Texas are discovering widespread damage from the deep freeze that crippled the state and expect to be down for weeks of repairs, raising the potential for prolonged fuel shortages that could spread across the country. ExxonMobil's Baytown and Beaumont plants, Marathon Petroleum's Galveston Bay refinery and Total's Port Arthur facility all face at least several weeks to resume normal operations, people familiar with the situation said.

The cold snap and power outages affected more than 20 refineries in Texas, Louisiana, and Oklahoma. As blackouts end that left millions of homes in the dark and frozen roadways thaw, drivers can take to the road again. But refineries are left with burst pipes, leaks, damaged equipment, and, in some cases, fluids that hardened into a sort of wax because the flow stopped. "It's going to be a difficult restart for refiners," said Andy Lipow, president of energy researcher Lipow Oil Associates in Houston.

Restarting a refinery isn't like flipping a light switch. In addition to fixing any damage, getting back online involves slowly heating up units, testing, then slowly ramping up so they are running fluid again. And then, testing and retesting the output until it meets specifications. If a refinery didn't shut major process equipment like gasoline-making units known as catalytic crackers before a power loss, there will be so-called dead legs, pockets of hydrocarbon, and steam that freeze and can burst pipes and cause leaks.

Texas refinery, petrochemical restart will add to emissions

(Bloomberg; Feb. 21) - The petrochemical hub that is the state of Texas went dormant during the deep freeze. Eventually, it'll wake up again, and when it does the damage will be worse than if it never went to sleep. Filings submitted in recent days to the Texas Commission on Environmental Quality already show significant emissions related to stopping and restarting fossil fuel infrastructure. It's an indication of what's to come in a state that's home to a quarter of U.S. gas production as well as half the oil production.

An ExxonMobil ethylene plant in Baytown, one of the world's biggest, reported the release of nearly a ton of the carcinogen benzene and 34 tons of carbon monoxide, which contributes to air pollution. Shutting off Valero Energy's Port Arthur refinery resulted in the release of more than 28 tons of sulfur dioxide, another pollutant. Events at two facilities belonging to Pioneer Natural Resources led to the escape of more than 12 tons of natural gas. Methane, the main component of natural gas, has many times the global-warming potential of carbon dioxide.

Refineries must flare off or otherwise release trapped pockets of gas when starting up or shutting down. While weather-based shutdowns are often unavoidable and done for safety, they can result in emissions that go far above allowable levels. "I expect the oil industry is going to have numerous problems restarting ... such as damaged cooling towers and other equipment," said Andy Lipow, president of Lipow Oil Associates in Houston. "The industry also has to be wary of water freezing and cracking pipes, which could release hydrocarbons into the atmosphere and cause an explosion and fires."

Texas gas producers couldn't fill pipelines without electricity

(Bloomberg; Feb. 19) - When the Texas power grid was on the brink of collapse and its operator plunged thousands into darkness, it didn't make an exception for oil and gas fields. Power was diverted to hospitals and nursing homes. The grid operator was staving off utter catastrophe, its chief executive later said. But leaving shale fields like the Permian Basin dark had an unintended consequence. Producers that depend on electricity to power their operations were left with no way to pump gas. And that gas was needed more than ever to generate electricity. It was a death spiral of supply.

The result was a vicious cycle that serves as a painful lesson to any power grid operator and utility company dealing with rolling outages during extreme weather. While frozen infrastructure and equipment malfunctions caused gas volumes to plummet, a lack of power also had a profound impact on supply. It's a phenomenon that highlights just how interconnected — and interdependent — Texas's energy network is. A crucial part of the natural gas system was knocked out by the power outages — the compressor stations that help keep gas flowing through pipelines.

As the grid operator asked utilities to prompt their big customers to reduce consumption, those gas pipeline compressor stations went down and the pressure across multiple pipelines started to drop, tripping some utilities off line because of lack of fuel. That led some areas of the Eagle Ford shale and the Permian to shut down gas production.

U.S. LNG exports exceed pipeline gas exports

(U.S. Energy Information Administration; Feb. 18) - The U.S. Energy Information Administration's February 2021 Short-Term Energy Outlook says the country's liquefied natural gas exports will exceed gas exports by pipeline in the first and fourth quarters of 2021 and on an annual basis in 2022. LNG exports set consecutive monthly records of 9.4 billion cubic feet per day in November 2020 and 9.8 bcf per day in December and January 2021, exceeding pipeline gas exports, according to EIA's estimates based on shipping data provided by Bloomberg Finance.

Since November 2020, all six U.S. LNG export facilities have been operating near full capacity, though this week's extreme winter cold temporarily halted shipments. The agency forecasts that U.S. LNG exports will decline to seasonal lows in the shoulder months of the spring and fall seasons before coming back next winter. The EIA forecasts average gross pipeline exports of 8.8 bcf per day in 2021 and 8.9 bcf per day in 2022, with the gas going to Mexico and Canada.

Market shifts, Asian LNG buyers now face oversupply

(Bloomberg; Feb. 18) - Asia's top importers of liquefied natural gas are facing a potential glut after last month's cold blast triggered a flurry of panic buying that swelled stockpiles. LNG supplies held by utilities in Japan, the world's top buyer of the fuel, have rebounded above pre-winter levels, according to government data. Chinese importers, including Sinopec, are grappling with a sudden jump in inventories, and considering whether to sell off shipments for March and April delivery to help ease their oversupply, according to traders, who requested anonymity as the plans are private.

Overzealous spot buying, coupled with a sudden shift to milder temperatures, has delivered an abrupt turnaround in the region, where importers last month scrambled for gas when frigid temperatures caught utilities flat-footed and quickly drained stockpiles. Chinese imports are down about 40% for the first half of February compared to the same period last month, according to ship-tracking data compiled by Bloomberg. The drop in demand is due to the Lunar New Year holiday, as well as milder temperatures.

Russia works to drive down costs for shale oil production

(Reuters; Feb. 17) - Russian companies have reduced the cost of extracting oil from shale but not enough to make it viable to exploit crude from reserves locked in rocks in the Bazhenov formation in West Siberia, analysts said. Russia is pinning its hopes on hard-to-recover oil underneath non-porous rocks, such as at Bazhenov, as conventional reserves in West Siberia, its main oil producer, are falling. Gazprom Neft estimates reserves of the low-sulfur, low-viscosity Bazhenov crude in the tens of billions of barrels.

Gazprom Neft is one of the companies working to extract the Bazhenov oil and plans to cut production costs this year to 8,500 rubles per tonne (\$15.80 per barrel), down more than two-thirds from four years ago, which would make the oil economically viable to produce. Already some parts of the Bazhenov can be tapped for as little as 5,000 rubles per tonne (\$9.30 per barrel), said Pyotr Stulov, head of the Shpilman analytical center which studies the formation.

The International Energy Agency has described the Bazhenov formation as the world's largest source rock, a bed of ancient organic matter dating back to the Jurassic period that has given rise to most of the crude pumped from the fields of West Siberia. As the costs fall, companies are increasing production there despite Western sanctions that ban cooperation with Russia on shale oil. Production from the formation increased by almost 70% last year to more than 65 million barrels.

Russia working to see if it can help oil producers on taxes

(Reuters; Feb. 19) - Russian Deputy Prime Minister Alexander Novak said Feb. 19 that the government has been working on support measures for oil producers, including changes in taxation, following last year's decision to increase taxes. The government had boosted taxes to raise money to cushion the economy from fallout from the COVID-19 pandemic. This year the tax hike is expected to result in the industry paying an additional 227 billion rubles (\$3 billion), with 361 billion rubles (\$4.9 billion) in 2022 at anticipated higher oil prices.

Novak told the Energy Ministry's in-house magazine that the government has tried to find ways to support the industry. He said potential steps include extending the more favorable profit-based tax to depleted oil fields. Interfax news agency quoted Deputy Finance Minister Alexei Sazanov as saying the ministry plans to work out profit-based tax parameters for highly viscous oil by year-end, with a view to implementing it in 2024.

Taxes on the oil industry are mostly based on production — through a mineral extraction tax — and export fees. Companies have long lobbied for profit-based taxation, saying it would spur production and better reflect exploration costs and risks. Currently, the profits-based tax is applied to a restricted number of oil fields in Russia.

Iraq freezes prepaid oil sale to Chinese company

(Reuters; Feb. 21) - Iraq has decided to freeze its first prepaid-oil sale — which had aimed to boost the country's finances — because oil prices are rising, the country's oil minister told BBC Arabic on Feb. 21. "We had concerns that oil prices would not rise above \$40 when we announced this deal for the first time in the history of Iraq," Oil Minister Ihsan Abdul Jabbar said. Brent crude has been trading above \$60 recently.

The prepayment scheme would have earned Iraq \$2.5 billion upfront. Chinese state oil trader Zhenhua Oil Corp. had emerged as the frontrunner in a tender to buy Iraqi crude for five years after it submitted the "most competitive bid" in the tender held by Iraq's state oil marketer SOMO that attracted participation from international oil companies, trading houses and Chinese and Indian refiners. But higher oil prices have made the deal less attracting to Iraq. "With the start of this year and the economic stability resulted from boosted oil prices, we decided to freeze this option," the minister said.

OPEC-member Iraq was seeking a prepayment plan as part of an oil sale covering January 2021 until December 2025, which it would repay with cargoes of its Basra crude, according to a letter sent by SOMO to its customers and seen by Reuters. Under the prepayment deal, the winner of the tender was to pay SOMO about \$2.5 billion in return for 48 million barrels of crude between July 1, 2021, and June 30, 2022.

Mexico wants to attract less attention with its oil hedging

(Bloomberg; Feb. 18) - Mexico is revamping its massive oil hedge, copying some of the tactics U.S. shale producers use in an effort to keep its presence in the market under the radar and secure better prices. The changes are among the most important since Mexico introduced the country's modern strategy to lock in prices for its crude, a closely watched deal that costs its government about \$1 billion a year in fees to big banks and commodity traders. It's considered the largest annual deal of its kind on Wall Street.

The nation traditionally sought to protect government revenues heavily dependent on oil by purchasing insurance from big banks and commodity traders one year ahead. Now Mexico aims to spread its hedging purchases over time. Even as Mexico seeks to become a more discrete presence in the market, the strategy shift is likely to attract some attention, particularly among option traders, as often the oil hedge roils prices when the banks that sell the insurance to Mexico seek to re-insure themselves.

To implement its hedge, Mexico buys put options — contracts that give it the right to sell at a predetermined price, protecting its treasury from a price plunge — with banks and energy companies. The approach is akin to the one used by most other big oil hedgers, including airlines and U.S. shale producers. Mexico first hedged its oil revenue during the first Gulf War. Since then it has hedged every year but 2003-2004, and it has paid off several times. Last year Mexico earned \$2.38 billion from hedging. Since 2001

Mexico has spent \$15.1 billion in fees buying put options, but has earned \$16.5 billion from the years the hedge paid off, according to Bloomberg News estimates.

Russian Far East will try reaching net-zero emissions by 2025

(Reuters; Feb. 18) - Fossil fuel-rich Russia may not be known as a leader on climate action, but authorities in the country's remote Far East have launched an unexpected experiment: An effort to try out carbon trading and reach net-zero planet-heating emissions by 2025. The government of the Russian island region of Sakhalin, in the Pacific Ocean north of Japan, is planning tax breaks, charging stations and dedicated parking lots for electric vehicles, alongside a ban on all petrol and diesel cars by 2035.

Coal-fired power plants will be replaced with somewhat cleaner natural gas, and hydrogen-fueled passenger train lines will be developed in the region the size of Ireland, Sakhalin officials said, after their net-zero roadmap was approved by Moscow. The Russian government — which has been criticized by green groups and analysts for setting unambitious climate action goals — in January gave a green light to Sakhalin's proposal for a pilot carbon emissions trading scheme, a first for the country.

The economy of the Sakhalin region, home to about half a million people, is largely based on fossil-fuel extraction, including coal. According to its net-zero plan, an inventory of Sakhalin's greenhouse gas emissions and natural carbon sequestration potential will be carried out by August, before setting up an emissions trading system to start operating in mid-2022. "This experiment will allow us to try various measures to regulate carbon and evaluate their effectiveness, for later scaling up at the national level," Russia's Economic Development Minister Maxim Reshetnikov said.

The mountainous region includes nearly 90 islands and is suitable for small-scale hydro, wind and solar power as well as geothermal energy, though those sources are still under-developed, said Sakhalin Deputy Prime Minister Vyacheslav Alenkov.

World's largest shipping line moves toward eliminating fossil fuels

(Bloomberg; Feb. 16) - A century after the global shipping fleet ran largely on coal, the world's largest shipping line is taking a step toward not using fossil fuels for propulsion. All newly constructed vessels owned by A.P. Moller-Maersk will have to be able to use carbon-neutral fuels, such as clean methanol and ammonia, as well as traditional oil-based products, the company said. The shift comes three months after the industry's main regulator set decarbonization rules that were criticized for their lack of ambition.

"If you don't do this, 10 years from now we risk becoming irrelevant," said Morten Bo Christiansen, head of decarbonization at Maersk. "Our customers need us to do this."

Alongside ammonia and clean forms of methanol, Maersk said so-called alcohol lignin blends were another primary candidate for future fuels. Liquefied natural gas is not part of Maersk's strategy: "We don't need another fossil fuel," Christiansen said.

About half of Maersk's 200 biggest customers have set science-based or zero-carbon carbon targets for their supply chains, or are in the process of doing so. The firm wants to have net-zero emissions from its operations by 2050, and has helped found a research center focused on decarbonizing the industry. While the new Maersk ships will still be able to run on very low-sulfur fuel oil — the product widely used by vessels today — the firm will strive to use carbon-neutral fuels, Christiansen said.

U.K. wants to heat homes with clean-burning hydrogen

(Bloomberg commentary; Feb. 16) - Heating U.K. homes with just hydrogen could be mainstream in a few decades as the government expects technology costs to plunge just as they have for wind energy. To accelerate the shift away from fossil fuels, the U.K. government will help fund the first British homes warmed entirely by the nascent energy source, Energy Minister Anne-Marie Trevelyan said in an interview.

"Hydrogen is critical in so many ways," she said, adding that the Department of Business, Energy and Industrial Strategy will "imminently" publish its strategy for decarbonizing buildings and heat. Hydrogen emits nothing but steam when burned, making it a much cleaner alternative to gas. As a first step, two regional pipeline managers will build two demonstrator houses heated by the fuel at a cost of 750,000 pounds (\$1 million). A third of that funding will come from the government.

Prime Minister Boris Johnson has said he wants hydrogen to heat an entire town in a decade. But even if many analysts are expecting prices for the technology to plunge, it's a risky strategy to put so much faith in a technology that is not commercially proven. It's not just the U.K. though, as others from the European Commission to Germany are also developing strategies for utilizing hydrogen in their energy transitions. Buildings account for a third of the U.K.'s greenhouse gas emissions. With more than 23 million properties on the U.K. gas network, making the sector greener is critical to tackle climate change.

Europe needs to speed up energy transition to meet target

(Bloomberg; Feb. 18) - Europe will need to accelerate the pace of its energy transition and expand the region's carbon market to reach its ambitious emissions reduction goal by 2030. The European Union is currently on track to deliver emissions cuts of 46% from 1990 levels by the end of the decade, short of its 55% target, according to global energy consultant Wood Mackenzie.

Accelerating the EU's energy transition in line with the Paris climate deal goals will help, and would require increased wind and solar capacity, retiring more coal-fired plants, and electric transport making up almost all passenger vehicle sales by 2030. However, this scenario would only reach a 53% emissions cut and take a further two years to reach the bloc's target. "To hit the 2030 target, Europe will have to do everything we have assumed, but quicker," said Murray Douglas, a research director at Wood Mackenzie.

Crucial to meeting the EU's carbon-reduction goal is reforming and broadening its emissions trading system, a key plank in its strategy of putting a price on pollution and spurring investment in green technology. Private investments in low-carbon opportunities will be key to meeting the emissions targets. Natural gas, however, will be a key part of Europe's energy mix as coal is phased out and renewable generation grows. Wood Mackenzie expects gas to remain resilient as an energy source to 2030.

[Iraq continues to exceed OPEC+ production quota](#)

(Bloomberg; Feb. 18) - Iraq's oil exports jumped in the first half of February even after OPEC's second-biggest producer pledged to cut production this month. Baghdad pledged to pump below its quota in February to make up for its past overproduction. Still, the pace of its crude exports in the first half of the month, if maintained through the rest of February, indicates the country may exceed its self-imposed production target of 3.6 million barrels a day and perhaps even its OPEC+ cap of 3.85 million.

Iraq derives almost all its income from oil and, like many other petrostates, is experiencing an economic crisis after the pandemic caused energy demand to collapse last year. The Iraqi Oil Ministry did not immediately comment when asked about exports. Iraq may be betting the OPEC+ deal is "too important to fall apart over some failure to compensate," said Robin Mills, head of Dubai-based consultancy Qamar Energy. "They need the revenue."

Exports aren't a direct gauge of production but give an insight into output levels. Countries can sell down stockpiled oil, which doesn't count toward their OPEC+ quotas. Additionally, tanker-tracking figures compiled by Bloomberg are preliminary and daily averages can change over the course of the month. Iraq's dire economic situation and inability to control output from fields in the semi-autonomous region of Kurdistan led it to overproduce by around 80,000 barrels daily between May and December.

[Report says Australia may need LNG imports by 2024](#)

(Reuters; Feb. 16) - Australia's southern states will need to import natural gas to fill a looming shortfall by 2024, as last year's COVID-induced oil and gas price slump has slowed investment in new gas fields, the country's competition watchdog said Feb. 16.

Regulators have warned of a potential gas shortfall since 2016 as the market's mainstay gas source off the south coast is drying up, but the supply crunch is now rapidly approaching, the Australian Competition and Consumer Commission (ACCC) said.

While last year's oil and gas price slump brought some relief to gas buyers, it also slowed investment in new gas projects, which has "increased the supply risks facing the gas market over the medium term," the ACCC said. Even if existing proved and probable gas reserves in the northern state of Queensland are developed, there could be a supply gap as early as 2024 in the southern states, the ACCC estimated.

"To ensure supply is sufficient to meet demand, the southern states will require either increased north-south pipeline capacity, the development of additional onshore and offshore gas fields, or the construction of one or more LNG import terminals," it said in its latest gas market update. There are five proposed liquefied natural gas import terminals — two in New South Wales, two in Victoria, and one in South Australia. Only one of those, Port Kembla in New South Wales, has moved into site preparation so far.

Woodside looks to sell 50% stake in Australia LNG expansion

(Reuters; Feb. 17) - Woodside Petroleum expects strong buyer interest in its sale of a 50% share of a new liquefaction unit at its Pluto LNG plant in Australia, top executives said Feb. 18, a precondition for a planned \$11 billion expansion. Gas from the offshore Scarborough field would feed the expansion at Pluto, which started up in 2012 at 5 million tonnes annual capacity and which Woodside wants to more than double.

Selling a stake would be key to avoiding a capital raising or a credit downgrade. The company suspended the sale process last year when oil prices slumped but is now optimistic about luring buyers. "We're now sitting in a much more attractive pricing environment," Chief Financial Officer Sherry Duhe told analysts. "The buyer appetite for infrastructure assets just continues to grow."