Oil and Gas News Briefs
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OPEC+ faces tough supply-price balancing act in the new year

(Bloomberg; Jan. 1) – As one of the most tumultuous years in oil's history ends, a delicate task now confronts OPEC+. The alliance of producers led by Saudi Arabia and Russia must decide whether it can continue to restore crude supplies without capsizing the price recovery they spent most of 2020 working to achieve. Moscow believes that the group — which slashed output during the pandemic — can revive another 500,000 barrels a day of idle capacity in February, on top of a similar increase scheduled for this month. Riyadh, which has favored greater caution, is keeping its views under wraps.

"It feels like OPEC+ is trying to steer a giant oil tanker through a narrow straight," said Giovanni Staunovo, an analyst at UBS Group in Zurich. Whatever they decide, the Organization of Petroleum Exporting Countries and its partners are leaving nothing to chance. With its Jan. 4 gathering, the coalition is switching to meeting monthly — rather than just a few times a year — in order to fine-tune production more precisely. After the hard lessons over the past 12 months, the impulse to micro-manage is understandable.

Currently idling 7.2 million barrels a day, or about 7% of world supplies, OPEC+ has resolved to return a further 1.5 million barrels a day in carefully calibrated installments. Russian Deputy Prime Minister Alexander Novak has signaled his readiness to proceed, saying last month that prices are in an optimal range of $45 to $55 a barrel. If OPEC+ refrains from bolstering exports, its competitors will simply fill the gap, he said.

But there's an argument for holding back more oil longer. Refiners haven't yet absorbed this month's supply hike, and a more infectious virus strain is clouding the outlook for global oil demand. The International Energy Agency has warned that the existing inventory overhang will linger to the end of the year if OPEC+ opens the taps too much.

Commodity trader invests in multibillion-dollar Russian oil project

(Financial Times; London; Dec. 30) – Global commodity trader Trafigura has acquired 10% of Rosneft's giant Arctic oil project, further strengthening the ties between the Singapore-based trading house and Russia's state-backed oil company. The investment in Vostok Oil marks a rare foray into a big oil production venture by Trafigura and also shows how national oil companies such as Rosneft are looking to push ahead with new ventures as European majors begin a shift toward renewable energy.

Trafigura did not disclose how much it paid for the stake. JPMorgan has estimated the project could require up to $150 billion of capital over the next 15 years and could ultimately provide up to 2 million barrels a day in oil production as well as substantial volumes of liquefied natural gas for export. “The investment provides Trafigura with access to a world-class, major new onshore oil-producing region in Siberia's Taymyr province comprising the Vankor and Payakha clusters with an estimated 6 billion tonnes (about 45 billion barrels) of high-quality crude oil resources,” Trafigura said.

Trafigura is the first investor in the project, which has strong backing from the Kremlin but is also expected to seek support from China and India. The aim is to create a prolific new oil-producing region. For that to happen, huge investment will be required in new oil wells as well as infrastructure including a port and a 475-mile pipeline. “Russia is acutely aware that the window to monetize its … reserves is narrowing as the world moves toward net-zero [emissions]. As such, we believe there is an imperative to push ahead with Rosneft’s Arctic Vostok project,” said JPMorgan analysts in November.

Number of active oil drilling rigs in U.S. lowest since 2005

(Bloomberg; Dec. 30) - The crisis that enveloped the oil industry in 2020 can be measured in various ways, but in the United States there may be no better single gauge than the tally of drilling rigs. The weekly data shows at a glance the level of confidence from hundreds of companies that sink shale wells from Texas to North Dakota. As the price of crude plunged amid the pandemic, those operators slashed spending and cut drilling crews. The result was a rig count that collapsed to levels not seen since the advent of the shale era 15 years ago, as crude demand and prices plunged.

And while the data has rebounded since August, it still remains far below where it began 2020. Next year isn’t expected to get much better with U.S. oil prices widely expected to be stranded between $40 and $50 a barrel, forcing explorers to make hard choices about whether new drilling is worth it. The number of rigs drilling for oil in the U.S. closed out 2020 at 267, according to Baker Hughes data released Dec. 30. It’s the lowest end-of-year figure since 2005, when gas drilling and fracking breakthroughs were just beginning to be deployed in oil fields.

The slump reflects a huge readjustment for the U.S. oil industry. Having ridden to a position of global preeminence on the back of the shale boom, the U.S. reemerged as a major exporter rivaling Saudi Arabia and Russia, but the pandemic hit hard and forced producers to make painful cost cuts. Domestic output is ending the year steady but about 16%, or 2.1 million barrels a day, below its pre-pandemic peak, a level where it’s widely expected to stay absent a dramatic price spike. In the meantime, OPEC has managed to regain its former position as the dominant player in the global market.

Russian oil production fell 8.8% in 2020 as part of OPEC+ deal

(Reuters; Jan. 2) - Oil production in Russia declined last year for the first time since 2008 and reached its lowest level since 2011 following a global deal to cut output amid weak demand caused by the coronavirus, statistics showed Jan. 2. Russian oil and gas condensate output declined to 10.27 million barrels per day last year, according to energy ministry data cited by the Interfax news agency. That's down 8.8% from a post-Soviet record-high of 11.25 million in 2019. The decline was in line with expectations.

The 2020 tally was the lowest since 2011, and the first annualized decline since 2008 which came during the global financial crisis and falling oil prices. Russia agreed to reduce its oil production last April by more than 2 million barrels per day, an unprecedented voluntary cut, along with other leading oil producers and the Organization of the Petroleum Exporting Countries. The move was designed to bolster the oil market beset by the fallout from the COVID-19 pandemic.

Since the April agreement, a record for global supply reductions, the group known as OPEC+ has progressively eased back on the cuts and is expected to release an additional 500,000 barrels per day into the market in January. OPEC+ is due to hold its next summit on Jan. 4. Russian Deputy Prime Minister Alexander Novak, in charge of Moscow's ties with OPEC+, has said Russia would support a gradual increase of the group's output by another 500,000 barrels per day starting in February.

Iraq selects Chinese oil buyer to prepay $2 billion in five-year deal

(Bloomberg; Jan. 3) - Iraq has selected a Chinese company for a multibillion-dollar oil-supply deal, as the Arab nation seeks funds to bolster an economy reeling from the coronavirus-triggered crash in energy prices. SOMO, which oversees Iraq's petroleum exports, picked a Chinese firm after receiving bids from several traders, the official Iraqi News Agency reported, citing an interview with the head of SOMO, Alaa Al-Yasiri.

While the news agency didn't name the company or specify if Prime Minister Mustafa al-Kadhimi had signed off on the deal, Bloomberg reported last month that ZhenHua Oil Co., a subsidiary of China's largest state-owned defense contractor, was the winner. "There was intense competition between two European and Chinese companies, and the Chinese company won," INA quoted Al-Yasiri as saying.

It's the first time Baghdad has sought a prepayment deal, in which oil is effectively used as security for a loan. It's also the latest example of China lending to struggling oil producers via state-controlled trading companies and banks. SOMO offered to supply roughly 130,000 barrels a day of crude for five years, according to a letter it sent traders in November. It wanted upfront payment for the first year of supply, which at current prices would bring in more than $2 billion, according to Bloomberg calculations. The winner gets flexibility in choosing when to ship the crude for a year, Al-Yasiri said.

Iran continues push to expand oil production

(Bloomberg; Jan. 3) - Iranian energy companies have agreed to contractor deals worth $1.2 billion to raise the nation's crude output, state-run National Iranian Oil Co. (NIOC) said. The signings were initially meant to take place on Jan. 4 in Tehran in the presence of Oil Minister Bijan Namdar Zanganeh, but have been delayed, NIOC said in a statement. The company didn't disclose the reason for or length of the delay.

Zanganeh said in mid-December that Iran planned to roughly double its oil production in the next year to 4.5 million barrels daily, as the country anticipates a loosening of U.S. sanctions after Joe Biden becomes president. National Iranian South Oil Co. and Iranian Offshore Oil Co. will sign deals with domestic contractors covering onshore fields in Bushehr, Fars, Khuzestan, and Kohgiluyeh and Boyer-Ahmad provinces, NIOC said. The offshore Reshadat deposit in the Persian Gulf is also part of the agreements.

The two NIOC subsidiaries agreed to $1.8 billion of similar domestic contracts in August to boost production at more than a dozen onshore and offshore crude deposits. Iran currently is exempt from an OPEC production quota due to the U.S. sanctions.

New chairman could move FERC to focus more on climate change

(Argus Media commentary; Dec. 31) - The Federal Energy Regulatory Commission will soon have a renewed focus on climate change as it reviews requests to approve natural gas infrastructure and overhaul rules for wholesale electricity markets. President-elect Joe Biden is set to promote one of the agency's two Democratic commissioners, Richard Glick or Allison Clements, as the next FERC chair. Either would be the most climate-focused leader ever of the agency, which critics say has been a "rubber stamp" for the gas sector, with a roughly 99% project approval rate over the past 20 years.

The leadership shift could result in FERC for the first time preparing exhaustive studies to evaluate if approving a gas line or an LNG export facility would on balance be better or worse for the climate. That would depart from a policy FERC embraced in 2018 where it chose to ignore most of the greenhouse gases tied to a project it was reviewing. Glick has pushed for robust review of greenhouse gas emissions, including whether emissions are significant enough that they must be mitigated.

During his three years at FERC, Glick has dissented on nearly every major gas line and LNG project because of concerns over the climate reviews. He also pushed the agency to focus on how its decisions affect consumers and landowners. Clements, who recently joined FERC, has similarly said the agency's review should extend to environmental issues. But an anticipated 3-2 majority of Republican commissioners at FERC through much of 2021 is poised to constrain the ability of the next Democratic chairman to quickly make sweeping changes. FERC might not have a Democratic majority even into 2022, if Republicans control the U.S. Senate and refuse to consider new nominees.

Opponents battle 45-mile oil pipeline to Memphis refinery

(Daily Memphian; Memphis, TN; Dec. 30) - Proponents of an oil pipeline through South Memphis and DeSoto County in Tennessee hope to begin construction in early 2021 and have started spreading around some of the project's future profits. The company in mid-December announced $1 million in grants to organizations that serve communities in the pipeline's path. But a coalition of environmental groups including Protect Our Aquifer has asked federal regulators to require a more exhaustive study of threats to drinking water supplies before giving a go-ahead to the Byhalia Connection pipeline.

Protect Our Aquifer joined the Southern Environmental Law Center, Sierra Club, and Memphis Community Against Pipeline in petitioning the U.S. Army Corps of Engineers not to allow the pipeline under an existing nationwide permit. The groups asked the Army Corps to instead require the project by Plains All-American Pipeline to undergo an individual permit process that the groups say could more effectively protect the aquifer.

The aquifer supplies drinking water to the region including Memphis, Shelby County, and North Mississippi. Threats to the aquifer, including the discovery of gaps in a protective clay layer that shields it from surface contaminants, have been a flashpoint for environmental activism in Memphis in recent years. Subsidiaries of pipeline giant Plains and petroleum refiner Valero Energy want to build a 45-mile extension of an existing line to move crude oil from Oklahoma to Valero's refinery in Memphis.

Insurgents move closer to LNG project in Mozambique

(Bloomberg; Jan. 3) - Mozambique's security forces fought off an attack by suspected Islamists within the area of Total's $20 billion liquefied natural gas development, according to three people familiar with the incident, raising risks for Africa's biggest private investment project. Fighters from a group aligned with Islamic State on Jan. 1 attacked the village of Quitunda, where Total is relocating communities from other parts of the concession as it builds export facilities and other infrastructure, the people said.

Government forces repelled the attack that lasted into early Jan. 2. It's the first time the insurgents attacked within the concession area. It's the latest violence in Mozambique's northern Cabo Delgado province, where attacks over the past three years have claimed about 2,500 lives and forced 570,000 people from their homes. In the past week the fighting has rapidly advanced closer to Total's LNG project, prompting the company to evacuate some workers by air from the remote site.

The fighting in Quitunda is the closest yet to Total's construction camp. The village is about six-tenths of a mile from the airstrip the company built within the camp's perimeter fence. The Mozambique LNG project is set to start production in 2024. Total has a 26.5% share in the project. While the fighting exposes the projects' vulnerability, Total won't abandon it, Jasmine Opperman, Africa analyst at the Armed Conflict Location & Event Data Project, said Jan. 3. "There might be a bit of a pause, a slowdown," she said. "A withdrawal? Not likely. There is simply too much at stake for them."

After no-growth 2020, LNG demand expected to resume climb in 2021

(Bloomberg; Dec. 30) - Liquefied natural gas traders anticipate a swift demand recovery in 2021 after a year in which the coronavirus pandemic prompted dramatic price swings. Cold weather in key importing nations, outages at production hubs and congestion along global shipping routes already have combined to push winter spot prices in Asia to the highest level since 2014. That's a more than sixfold jump from a record low in April, making Asian LNG the best price performer among major commodities in 2020.

Demand for the fuel used in heating and power generation is growing faster than for any other fossil fuel as nations look for a cheap, reliable and cleaner alternative to coal. The pandemic derailed that growth for 2020, but China and India are emerging as major sources of demand. Global LNG imports in 2020 were roughly equal to the previous year, according to ship-tracking data compiled by Bloomberg. That was a big disappointment for an industry that has enjoyed 10% annual growth rate since 2016.

However, global gas demand is expected to resume growth in 2021. LNG demand, which takes 10% of the total, may rebound even faster depending on how Pakistan, India, and Bangladesh perform, said Manas Satapathy, a director in Accenture's energy business. The Gas Exporting Countries Forum, which represents 60% of global LNG exports, expects supply to climb by 6% to 7% next year, up from 2% to 2.5% in 2020. Though the market will likely remain oversupplied next year, it is expected to tighten as demand builds, according to Vitol and Trafigura, two of the biggest traders in LNG.

Investigation continues into oil train derailment north of Seattle

(The Northern Light; Blaine, WA: Dec. 30) - As investigations into the cause of the Dec. 22 BNSF Railway derailment in Custer, Washington, which forced business and home evacuations within a mile of the wreckage continue, crews have begun clearing the train cars. The 108-car train was carrying Bakken crude from North Dakota to Ferndale refineries on Puget Sound, about 90 air miles north of Seattle, when 10 cars derailed.

The train was traveling at 7 mph before the accident, making it a low-speed derailment, said Courtney Wallace, regional BNSF Railway public information officer. The two crewmembers aboard the train, people in the area and wildlife near the site were not injured in the derailment, said Dave Byers, Washington State Department of Ecology response section manager, during a press conference the day after the derailment.

Wallace declined to link the accident to as many as 41 attempts to sabotage tracks this year in Whatcom and Skagit counties. “We’re not going to speculate on cause or on the investigation.” This derailment comes less than a month after two Bellingham residents were charged with one count of terrorist attack and other violence against a railroad carrier after allegedly attempting to place a shunt on north Bellingham train tracks, which can cause derailment, according to the U.S. Attorney’s Office for the Western District of Washington. Both defendants were released Nov. 30 from county jail.

New York state uses drone technology to find abandoned wells

(Watertown Daily Times; NY; Jan. 2) - A partnered effort announced earlier this month is leveraging new drone technology and magnetic surveillance to spot abandoned oil and gas wells in New York state. To date the state Department of Environmental Conservation has located more than 2,000 orphan wells that can continue to release damaging methane into the atmosphere. Those well assessments have been based on landowner interviews, lease maps and on-site ground assessments.

This year, the state Energy Research and Development Authority has pledged support for existing DEC efforts and committed to invest up to $400,000 in custom drone and imaging equipment for well assessments primarily in central and western New York. Named orphan wells — inactive oil and gas ground infrastructure without a known owner — may be abandoned for decades before rediscovery. Some orphan wells in the state were shut down more than a century ago, DEC Commissioner Basil Seggos said.

DEC reports methane is second to carbon dioxide in its overall contribution to global climate change. In New York state, methane accounts for nearly 10% of annual greenhouse gas emissions, according to DEC. When an orphan well is identified, DEC staff assess public safety and environmental risks, often resulting in the plugging of the well. Since 2014, the department has plugged 340 abandoned wells through the New York Works Well Plugging Initiative, first budgeted by the state in 2013.

Cambodia produces its first oil

(The Associated Press; Dec. 29) - Cambodian Prime Minister Hun Sen said Dec. 29 that the country’s long-awaited first commercial extraction of oil has finally begun. Speaking on state television, Hun Sen said the first oil was extracted Dec. 28 by KrisEnergy, a Singapore-based oil and gas company, from a well in the Gulf of

Thailand, west of the coastal Cambodian province of Preah Sihanouk. “The start of production is a blessing for our Cambodia,” Hun Sen said.

The 1,158-square-mile concession is estimated to hold as much as 30 million barrels of oil. It was discovered in 2004 and initially held by Chevron, which sold its stake to KrisEnergy in 2014. KrisEnergy, which was granted production rights by the government in 2017, holds a 95% share, and the Cambodian government holds 5%. Production began from a single well, and according to an announcement from the oil company is expected to reach a peak of approximately 7,500 barrels of oil per day once the drilling program is completed and four more wells come online in mid-February.