Oil and Gas News Briefs
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Russian bank finances trader's stake in Arctic oil project

(Bloomberg; Jan. 5) - Trafigura Group's purchase of a large stake in Rosneft's flagship Arctic oil project was funded by a $7 billion loan organized by a Russian bank, according to documents that shed new light on the commodity trading house's biggest-ever deal. The two companies last week said they had completed a deal for Trafigura to take a 10% stake in Vostok Oil, without providing a value. Trafigura had said the purchase had been "majority financed by long-term debt," but didn't name the lenders.

According to corporate filings in Singapore, the trading firm agreed to a 5.775 billion-euro ($7 billion) loan facility with Credit Bank of Moscow on Dec. 23. The documents offer the first official indication of the scale of Trafigura's bet on the sprawling project, which Rosneft CEO Igor Sechin has said could produce 1 million barrels of oil a day by 2027. The investment runs counter to the reluctance among many Western majors and investors to back oil projects, especially in environmentally fragile areas like the Arctic.

In addition to the loan to a fully owned Trafigura entity CB Enterprises, through which it bought the stake in Vostok Oil, the trading house invested a small amount of its own funds, according to a person familiar with the transaction, who asked not to be named discussing sensitive information. That implies that the deal was worth more than $7 billion — making it Trafigura's largest-ever acquisition by far — and valuing the 10% stake in Vostok Oil at roughly the same level as the entire book value of Trafigura itself.

Analysts at Bank of America Merrill Lynch have described the Vostok Oil project as one of the largest oil developments globally in decades, saying it "could rival in scale the oil developments of West Siberia and Volga Urals regions in the 1960s." Those have helped Russia pump billions of barrels, making it one of the world's biggest producers.

While planning for less oil, BP profits from Russian crude

(Financial Times; London; Jan. 5) - BP's chief executive Bernard Looney has staked his leadership on the company producing less oil. Rosneft's CEO Igor Sechin is taking the opposite side of that bet, with a planned $134 billion wager on a vast new project in the Arctic. That BP owns nearly 20% of the Russian oil producer appears to make no difference to the pugnacious Sechin's faith in crude. But perhaps it should to Looney.

Sechin announced Rosneft's Vostok Oil project was underway in November. It is in many ways the antithesis of Looney's commitments to make BP a net-zero company by

2050 and reduce its reliance on fossil fuel revenues. The scale of the project is huge. Seeking to tap an estimated 45 billion barrels of crude, Rosneft will create 15 new towns to house the 400,000 people required to build and operate the wells and infrastructure.

A fleet of ice-capable tankers is being built. When fully operational by 2030, Rosneft hopes to export 2 million barrels of oil per day. Trafigura, the Singapore-based trading house, has purchased a 10% stake in the project, which is also being pitched to Chinese and Indian investors. Looney joined Rosneft's board in June, one of two seats BP holds thanks to its 19.75% stake — the largest share after the Russian government.

BP has said it needs to continue participating in some lucrative hydrocarbon projects to fund investments in cleaner energy. And Rosneft certainly provides Looney with strong reasons to ignore the gulf between the two companies' outlook. BP earned $785 million in dividends from its Rosneft stake in 2019 and booked $2.3 billion of pre-tax profit from the investment. Rosneft's wells account for about a third of BP's annual production.

Saudis agree in OPEC+ deal to cut production in February and March

(Reuters; Jan. 5) - Saudi Arabia pledged additional, voluntary output cuts of one million barrels per day in February and March as part of a deal under which most other OPEC+ producers will hold production steady in the face of new coronavirus lockdowns. Saudi is going beyond its promised cuts as part of the OPEC+ deal to support both its own economy and the oil market, Energy Minister Prince Abdulaziz bin Salman said Jan. 5.

Prince Abdulaziz urged caution, noting still fragile fuel demand and the unpredictable impact of new variants of the coronavirus. He said Saudi Arabia's voluntary cut would help prevent a stockpile build-up. April volumes are to be decided by OPEC+ in March.

"If there is one way to describe what its voluntary cut means for the market, 'happy hour' is a pretty fitting term," Rystad Energy analyst Bjornar Tonhaugen said in a note. Benchmark Brent oil prices rose on the news, trading up almost 5% above $53 per barrel on Jan. 5. The deal followed two days of talks by OPEC+, which includes OPEC nations and others, including Russia.

Two OPEC+ members — Russia and Kazakhstan — will be allowed to bump up their output by a combined 75,000 barrels per day in February and a further 75,000 in March. Their increases could frustrate OPEC+ peers looking to pump more, but it was apparent the two were keen to avoid non-maintenance winter shutdowns, which at aging wells in Russia for example could prove uncommercial to restart, Rystad's Tonhaugen noted.

Oil market improves, floating storage volume lowest since April

(Reuters; Jan. 5) - Traders accelerated oil sales from floating storage in December to meet higher demand in Asia as the region's refineries throttled up for peak winter consumption, trade sources and analysts said. The drop in excess global stored oil and a sudden decision by world's top exporter Saudi Arabia to self-impose additional output cuts in the next two months are expected to keep supplies snug and support prices.

"Oil prices are up, and backwardation has widened in expectation of a tighter crude market," said Serena Huang, Asia lead analyst at data analytics firm Vortexa. "We could expect to see traders accelerating the sell-off of physical barrels that they are holding in storage." The rollout of COVID-19 vaccines has also lifted hopes for oil demand in 2021 and flipped Brent's market structure into backwardation, reducing incentives for traders to store oil. Backwardation refers to higher prompt prices versus those in future months.

Global floating storage drew down by the most in December last year, with the average monthly volume down by 25.8 million barrels versus November, data from Vortexa showed. Floating storage levels fell further at the start of 2021 to the lowest since April when the COVID-19 pandemic ravaged fuel demand, the data showed. Asia's major buyers, India, China, and Japan, imported a high volume of crude in December, data on Refinitiv Eikon showed, as refiners replenish stockpiles.

Rating agency predicts another bad year for U.S. energy companies

(Financial Times; London; Jan. 2) - Defaults by U.S. oil and gas producers are set to outstrip all other sectors again in 2021 as the industry faces yet more pain, according to a forecast from Fitch rating agency. Energy will account for $15 billion to $18 billion of U.S. high-yield bond defaults in 2021, Fitch predicted. That is more than double both health care and industrials, the next most affected sectors, the rating agency said.

The volume will be well below the $48 billion racked up by energy companies in 2020, which was also by far the largest of any sector. But the persistence of elevated distress levels will dash hopes of a respite for the industry after one of its hardest years in recent history. "Low oil prices coupled with capital market accessibility will likely hamper many of the weaker energy issuers in 2021," said Eric Rosenthal, a senior director at Fitch.

The default rate in the energy sector is likely to be 7% to 8% in the coming year, according to Fitch, down from more than 15% over the past 12 months — the highest since 2017 — but well above the historical average of 4.4%. The U.S. oil industry was thrown into turmoil in 2020 after the COVID-19 pandemic crippled global demand just as the market was flooded with Saudi crude. Producers were forced to slash spending, shut wells and lay off workers. The lower output further depressed cash flow, leaving operators with less money to pay down debt.

Alberta could lose investment if Biden blocks Keystone oil line

(Calgary Herald columnist; Jan. 6) – Alberta Premier Jason Kenney says Alberta would likely face a "significant write-down" of its C$1.5 billion equity investment in Keystone XL if the cross-border oil line is cancelled by incoming President Joe Biden. But he remains confident in the future of the project, which is being built by Calgary-based TC Energy. And Kenney says he still would have made Alberta's C$7.5 billion financial commitment last spring, even if he'd known Biden would pledge a few weeks later to stop the line.

"We knew full well that we were assuming a certain political risk because the market wasn't prepared to underwrite the project with that risk. And we were not prepared to sit by passively while others determined our fate," Kenney said in a year-end interview. "The risk of just sitting passively by and seeing the project potentially cancelled … was a greater risk." The long-embattled pipeline is designed to ship up to 830,000 barrels per day of Canadian oil from Hardisty, Alberta, to Nebraska, to connect to an existing pipeline network to move Canadian oil to refineries on the U.S. Gulf Coast.

To jump-start construction in 2020, the Alberta government announced last spring it would make a $1.5 billion equity investment in Keystone XL. It also agreed to provide a $6 billion loan guarantee to the project, beginning in 2021. In May, Biden said he would cancel necessary permits for the environmentally controversial pipeline. The Canadian and Alberta governments are pressing the U.S. to allow the project to be completed.

Total suspends work at Mozambique LNG project

(The Associated Press; Jan. 4) - Mozambique's jihadist violence has forced the French energy firm Total to suspend work at its $20 billion liquefied natural gas project in the country's northern Cabo Delgado province. After the rebels' Jan. 1 attack on Quitunda village, just outside the fence of the gas project, the company removed most of its workforce, estimated at 3,000, from the Afungi Peninsula.

"In view of the evolving security situation in Cabo Delgado province," the company "decided to reduce the number of personnel present at the Afungi site," Total said in a statement Jan. 4. Work at the site has been suspended, according to the Zitamar news agency. Total has cut back operations to a bare minimum, evacuating staff and contractors by air. The insurgents, allied with the Islamic State group, have carried out a string of attacks since Christmas Eve, driving closer to the construction site.

The Total-led project is scheduled to begin production in 2024, with a planned capacity of 12.9 million tonnes of LNG per year. The region is also home to ExxonMobil's proposed Rovuma LNG project, at 15.2 million tonnes per year. In recent weeks, however, increased fighting has put more focus on security issues facing the southeast African country and its fledgling LNG industry.

Exxon, Chevron among companies signing to explore offshore Egypt

(Bloomberg; Jan. 2) - Egypt said it has signed new agreements to bring in investment of about $1 billion to search for oil and gas in the Mediterranean and Red Sea. The deals are with six international and local companies including ExxonMobil and Chevron, the state-run Middle East News Agency reported Jan. 1, citing a statement from Oil Minister Tarek El Molla. The deals target drilling of 23 wells in nine regions in the Mediterranean and three regions in the Red Sea, with a minimum total investment of about $1.4 billion.

New Mexico oil production starts to return

(Santa Fe New Mexican; New Mexico; Jan. 2) - When Sam Cobb sets out on U.S. 62 these days, he's seeing more heavy-duty trucks. For the mayor of Hobbs, that means activity is picking up again in the heart of New Mexico oil country. "You can see an increased movement of people and equipment," Cobb said of the highway that runs from his city to Carlsbad, through the state's energy region. Officials and residents across New Mexico's portion of the Permian Basin are reporting similar signs of life.

Only nine months after a devastating spring that spelled the sudden end of the state's record-setting oil boom, the industry is coming back faster than expected. The surprising turnaround is perhaps most evident in the most recent state revenue forecasts. They came in much rosier than the grim predictions economists made after crude prices plummeted amid the emergence of the pandemic in March and April.

State economists now expect state revenue of nearly $7.4 billion for the next fiscal year, a big gain from the $6.2 billion forecast six months ago. This has allowed government to dial back its planned belt-tightening and no longer require agencies to cut their general fund spending by 5%. The state's oil output plummeted 11.5% in the second quarter of 2020, then rose 5.2% in the third. September's monthly production of 30.7 million barrels was down about 10% from the state's record of 34.4 million in March just before the impact of the pandemic set in, and was higher than any month during 2019.

LNG winter price spike in China starting to ease back

(Reuters; Jan. 3) - A recent surge in liquefied natural gas prices in China is likely to be short-lived, traders and analysts said, as state-run producers build up supplies to cope with winter chills and prevent a repeat of the 2017 supply crunch. Wholesale prices of the fuel almost doubled over three weeks in December as an early cold snap was accompanied by robust post-pandemic manufacturing activity in China and with some provinces burning more gas as part of a national drive to shift away from coal.

The spike in delivered prices to a peak of more than $28 per million Btu at factories and LNG filling stations in northern China on Dec. 21, the highest in three years, was made worse by dealers hogging imported fuel. Demand surged in northern regions, where gas is now a dominant heating fuel for more than 20 million homes, and several provinces in central and east China reported power shortages. The high prices were a reminder of the winter of 2017, when China suffered a severe gas crunch that left factories shut and homes freezing as Beijing's anti-pollution drive to discard coal drove demand for gas.

Despite the early price surge this season, most analysts do not expect a repeat of 2017. "Large dealers propped up prices after seeing city-gas firms scramble to replenish stocks after the first cold spell, but that rush is over and prices are already correcting," said Li Ruipeng, a private dealer in north China's Tangshan who ships LNG in trailers to factories and gas filling stations. Delivered wholesale prices have already eased back from the December highs to around $22 per million Btu this week.

China's cold winter, power shortages drive demand for diesel

(Bloomberg; Jan. 4) - A frigid winter is leading to power shortages in parts of China, driving up demand for diesel as factories rush to install generators to keep the lights on. Some provinces have started rationing electricity to industrial and commercial users to make sure there's enough power to heat homes during a colder-than-typical winter. That's prompting factories to snap up portable generators and the diesel they run on to ensure their plants stay open to meet orders amid record-high exports from the country.

The Chinese meteorological authority earlier issued an orange alert nationwide — the second-highest level in its four-tier system — as a cold wave sweeps through the nation. With temperatures still expected to dip further, grid operators are prioritizing the supply of energy to homes and the community, leaving other customers to scramble for alternative power sources. "Power cuts have brought us extra orders," Huang Yu, a sales manager at Shandong Dianyuan Village Power Technology, a company that supplies generators of different sizes. "We have been quite busy since November."

The company, which offers a wide range of generators including some large enough to power a small town, has sold more than 20 a day recently, more than triple the normal level, Huang said. "If there is a shortfall in electricity, diesel is the most responsive energy to fill the gap," Sengyick Tee, an analyst with Beijing-based SIA Energy said. China's power demand surged in the second-half of 2020 as its economy recovered from the pandemic and demand for its protective gear and medical equipment soared.

Japan faces power shortage during cold weather

(Nikkei Asia; Jan. 6) - Tepco Power Grid, the transmission unit of Tokyo Electric Power, has asked commodities companies with private power generation equipment to help it provide electricity as Japan faces a power outage. A series of cold spells has caused a surge in demand for liquefied natural gas to generate heat. As Japan faces a shortage of LNG, Tepco Power Grid is hoping to buy electricity from other industries, an unusual move that hints at a severe outlook, so that it can continue to supply its customers.

Major oil, steel and chemical companies have power generation facilities at some of their plants that they use to generate power for production activities. Tepco Power Grid has asked many companies with such facilities to sell it any surplus electricity. Tepco has also requested that they ramp up power generation to help it meet demand. This is not the first time that Tepco has reached out for help. It procured electricity from other power-generation companies after the Fukushima disaster in 2011. However, it is unusual for the company to procure electricity from companies outside of the industry.

Demand in the Kanto area including Tokyo has surged after cold spells. Tepco Power Grid had already bought electricity from its peers such as Chubu Electric and Hokuriku Electric on Jan. 3 and 4. The cold spell is expected to continue over the next few days. There is little option to procure LNG at short notice as a spot buy takes about two months to deliver. "Unlike the U.S. and Europe which can obtain gas through pipes, it is challenging for Japan as an island country to procure LNG in a short amount of time," said Junichi Ogasawara, research fellow at the Institute of Energy Economics in Japan.

Korean builder wins order for LNG-fueled container ships

(Korea JoongAng Daily; Jan. 5) - Korean shipbuilders announced their first big deals of the new year on Jan. 5, on top of a rising tide of demand for eco-friendly shipping. Korea Shipbuilding & Offshore Engineering, an affiliate of Hyundai Heavy Industries Group, won a 900-billion-won ($827 million) contract to build six container ships, each with capacity for 15,000 20-foot-long containers and running on liquefied natural gas.

Deliveries will start from the first half of 2023. The ships will be equipped with large-scale LNG fuel tanks so that the vessels can shuttle between destinations in Asia and Europe without needing to be refueled. Korea Shipbuilding & Offshore Engineering now has an order backlog of 50 LNG-fueled ships — the largest in the industry, the company said, adding that there has been a constant increase of demand for eco-friendly vessels as environment regulations are strengthened worldwide.

Small village in U.K. will test adding hydrogen to natural gas

(Financial Times; London; Jan. 3) - More than 650 homes in a small village will this year become the first on the U.K.'s public gas grid to be heated partially by hydrogen, as energy companies test ways to slash emissions from one of the most polluting parts of the economy. Up to 20% hydrogen will be blended into the natural gas network that serves the village of Winlaton in Gateshead toward the end of the first quarter of 2021.

It will mark a key milestone in tests to see if hydrogen — which does not emit carbon dioxide when burned — could reduce the climate impact of buildings in the U.K., which last year were the third-biggest greenhouse gas emitters, behind industry and surface transport. About 85% of homes and 63% of public and commercial properties heat with natural gas. Energy companies have been researching whether gas could be replaced with hydrogen to help the U.K. meet its legally binding 2050 net-zero emissions target.

Several hydrogen trials are already underway in the U.K. but they are in properties that are either uninhabited or on a closed private network. A small number of purpose-built, uninhabited houses on a secluded Royal Air Force base in Cumbria are being heated on 100% hydrogen, while 20% hydrogen has been blended into the private gas network at Keele University in Staffordshire. Tim Harwood, who oversees hydrogen projects at Northern Gas Networks — which covers Winlaton — said the Gateshead experiment was the next key stage before public trials could begin using 100% hydrogen heating.