Oil and Gas News Briefs
Compiled by Larry Persily
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OPEC+ deal will add more supply, starting in August

(The New York Times; July 18) - Major oil-producing nations reached a deal July 18 to boost output, as the United Arab Emirates and Saudi Arabia resolved a dispute that had blocked a deal earlier this month. The pact clears the way for OPEC+ to begin pumping more oil, which could help ease a potential squeeze in supply as global economies gear up after pandemic lockdowns. Under the agreement, OPEC+ will indefinitely increase production each month by 400,000 barrels a day, beginning in August, potentially restoring by the end of 2022 all of the cuts made at the start of the pandemic.

The arrangement gives the Emirates most of the increase in its production quota that it was seeking, although not until after next April. Other countries, including Kuwait, Iraq, Saudi Arabia and Russia, will also be granted increases in their production limits, according to OPEC's statement. The agreement ends a standoff between Saudi Arabia, the de facto leader of the cartel, and the Emirates, which has invested heavily in expanding its oil production and has chafed against the group's limits on its output.

After the group failed to reach an agreement earlier this month, oil prices spiked, hitting a six-year high on July 6. The rising price underscored concerns about increases in gasoline prices and inflation in general in the United States and elsewhere. The pact also appears to restore Saudi Arabia, the world's largest oil producer, as the dominant influence over the 23-member group. "We are here to stay," Prince Abdulaziz bin Salman, Saudi Arabia's oil minister, said at a news conference after the group's meeting. "What bonds us together is way beyond what you imagine."

Alaska project uncertain as Oil Search executive resigns

(Australian Financial Review; July 19) – Australia-based Oil Search has been thrown into crisis after managing director Keiran Wulff resigned suddenly due to a deterioration in long-term health issues that coincided with an investigation into a whistleblower complaint about his overbearing behavior. The company said, "Wulff had behaved in a manner inconsistent with the standards expected by the board in relation to his management style." Analysts said the news puts the company's A$4.1 billion oil project in Alaska in doubt and has raised speculation Oil Search will become a takeover target.

Wulff, who took up the role in February 2020, replacing long-term incumbent Peter Botten, said it had become "increasingly difficult for me to perform at the level required of the position." He explained in a statement: "After considerable reflection and consultation with my family and others including my medical advisers, it is an appropriate time to leave to focus on my health."

Equity analysts grilled chief financial officer Peter Fredricson on the prospects now for Oil Search's Pikka project in Alaska, where a process is under way to bring in a third partner. That process had been expected to conclude ahead of a final investment decision targeted for late this year, but for which Fredricson on July 19 said there was now no targeted timing, with the decision to hinge on resolving funding for the venture.

Credit Suisse analyst Saul Kavonic questioned whether the Alaska project would still proceed amid the leadership turmoil. "The Alaska project may not survive this new executive musical chairs mess at Oil Search, as it will be a tough ask to find a new CEO willing to champion that challenged project," he said.

Climate-change goals could cut into China's gas demand growth

(Eurasia Review; July 18) - As China's planners prepare to meet President Xi Jinping's climate-change goals, there are signs that the targets will require deep cuts in forecasts for natural gas consumption. The government has spent much of the past decade promoting gas as a cleaner replacement for coal, converting home heating systems to reduce smog and switching power plants to gas in megacities like Beijing.

Years of double-digit growth in gas consumption have led to big investments in new resources, import facilities and pipelines by China's national oil companies and also suppliers. In 2010, Russia's then-Deputy Prime Minister Igor Sechin said, "the growth of gas consumption in China may be unlimited." But now, Xi's pledge to reach peak carbon emissions by 2030 and achieve net-zero neutrality before 2060 has driven state energy forecasters to recalculate how much fuel China will consume in the decades to come.

While gas demand was previously expected to reach 24.7 trillion cubic feet by 2050, estimates of the growth pace have now been revised down to between 18.9 trillion and 21.4 trillion cubic feet by 2030 with peak demand in 2035, said Hou Chuangye, vice president of gas sales at China National Petroleum Corp.'s PetroChina subsidiary. Similarly, Tang Shanhua, PipeChina's deputy general manager of business operations, said gas demand will rise from 11.5 tcf last year to 18.6 tcf by 2030 and 30 tcf by 2035 before dropping back to 19.4 tcf by 2050.

China catching up to U.S. in refinery output

(Bloomberg; July 14) - Chinese oil companies processed a record volume of crude in June, offering further signs that Asia's largest economy may surpass the U.S. to become the world's biggest refining nation this year. Volumes hit 14.86 million barrels per day last month, up 3.8% from May, according to Bloomberg calculations based on data from China’s National Bureau of Statistics. That compares with a daily average of 16.17 million barrels in the U.S. in June, data from the Department of Energy show.

China’s refining capacity has nearly tripled since the turn of the millennium and the International Energy Agency predicts that the country will overtake the U.S. this year. Crude processing capacity will expand to 1 billion tons a year, or 20 million barrels per day, by 2025, compared with 17.5 million barrels at the end of 2020, China National Petroleum Corp. forecast earlier.

China drawing down crude stockpiles to boost refined exports

(Reuters column; July 15) - China imports of crude oil were soft in the first half of the year, but exports of refined fuels were strong and on track to reach a record high in 2021, underscoring the impact of the country's build-out of modern refineries in the past decade. The trends show a larger share of China's oil imports aren't being consumed domestically, and are returning to the international market in the form of refined fuels.

Looking at China's net position in the oil trade, it seems world's biggest oil importer is consuming less. China imported 260.66 million tonnes of crude in the first six months of the year, equivalent to about 10.51 million barrels per day, 3% less than during the same period in 2020. It is the first time imports have declined in the first half of a year since 2013. Meantime, China's exports of refined fuels rose to 6.44 million tonnes in June, or about 1.71 million barrels per day.

What appears to be happening in China is that refiners have been drawing on stockpiles built up in the second half of last year, when they went on a buying splurge as crude prices fell to 20-year lows amid the coronavirus pandemic and a brief price war between top exporters Saudi Arabia and Russia. There is a question as to how long Chinese refiners will be prepared, or able to, draw down inventories.

U.S. oil producers borrow to refinance debt, not boost production

(The Wall Street Journal; July 15) - Energy companies are raising money again from Wall Street at super-low borrowing costs — thanks in part to higher oil prices. The one thing most investors don’t want them to do with the money is pump more crude. Speculative-grade energy companies, including oil producers, pipeline operators and refineries, have issued bonds in the U.S. at a record pace this year, raising about $34 billion so far, according to LCD, a unit of S&P Global Market Intelligence.

The ability to borrow at relatively low rates has put U.S. oil companies on surer financial footing, ensuring there are plenty of producers that could open the taps if needed to keep crude prices in check. The catch: Investors want to see companies repairing their balance sheets and delivering to creditors and shareholders rather than plowing money into new wells. The restraint demanded by investors stands in contrast to previous periods of breakneck growth in U.S. oil production, and it raises the prospect that the nation’s output may not rise to offset a recovery in demand.

Companies are refraining from deploying money to raise output, which in turn is tightening the balance between supply and demand, said Lex Maultsby, a managing director for leveraged finance at Bank of America. “Most of the debt financings are principally extending debt maturities and not being used to fund … production growth.” About 88% of the industry’s high-yield bond sales this year have gone toward paying down existing debt to lower interest costs or extend debt maturities.

Small California oil producers need to make money for remediation

(The Bakersfield Californian; July 17) - The new slogan used by Maricopa, California, oilman Chris Hall speaks to the direction small, independent producers like him may be headed with recent political currents. If it sounds fatalistic, it's also conscientious. "I am in the business," he says, "of going out of business." Hall is working to wind down his operations, plugging his oil wells as fast as he can afford to and removing pipelines and associated facilities so as not to leave behind an environmental, health and safety risk.

Hall, 71, says every dime goes to oil field remediation. But he worries time is running short as state government accelerates its phaseout of in-state oil and gas production. Among the deadlines keeping him up at night is a Jan. 1, 2027, ban on the diesel motors his well-workover equipment runs on. "I just hope the state gets it right," he said. His challenge illustrates a tricky balance for California's campaign to address the threat of orphan wells while also regulating the state's oil industry out of existence.

Ongoing production funds oil companies' well-abandonment work. Similarly, Sacramento's efforts to prevent idle wells from becoming so-called orphan wells rely to a large degree on oil producers being financially healthy. Some in the industry warn cutting off oil too soon could have unintended consequences. "To ensure this (well plugging and remediation work) by operators continues in the future, we need to ensure we have viable operators who continue to meet their obligations," CEO Rock Zierman of the trade group California Independent Petroleum Association said by email.

Greenland suspends all new oil exploration leasing

(The Associated Press; July 16) - The government of Greenland has decided to suspend all oil exploration off the world’s largest island, calling it is “a natural step” because the Arctic government “takes the climate crisis seriously.” No oil has been found around Greenland, but officials had seen potentially vast reserves as a way to help Greenlanders realize their dream of independence from Denmark by cutting the annual subsidy of 3.4 billion kroner ($540 million) the Danish territory receives.

Global warming means that retreating ice could uncover potential oil and mineral resources which, if successfully tapped, could dramatically change the fortunes of the semiautonomous territory of 57,000 people. “The future does not lie in oil. The future belongs to renewable energy, and in that respect we have much more to gain,” the government said. The decision to suspend new licensing was announced July 15.

The U.S. Geological Survey estimates there could be 17.5 billion undiscovered barrels of oil and 148 trillion cubic feet of natural gas off Greenland, although the island’s remote location and harsh weather have limited exploration. The government has been led by the Inuit Ataqatigiit party since April’s parliamentary election. Greenland still has four active hydrocarbon exploration licenses, which it is obliged to maintain as long as the licensees are actively exploring. They are held by two small companies.

New risk assessment looks at Canadian Arctic oil spill

(CBC News; Canada; July 15) - As global temperatures rise, ice in the Canadian Arctic is melting at an unprecedented rate. This means the Northwest Passage will see more ship traffic — which increases the potential for an oil or fuel spills in the region. A new risk assessment on the consequences of a hypothetical oil spill in the Rankin Inlet region of Nunavut posits that the cleanup and socioeconomic costs of such a disaster could climb to C$9.4 billion (US$7.5 billion) in five years under a worst-case scenario.

The worst-case scenario is where no attempt is made to clean up or otherwise mitigate the spill. While non-intervention is unlikely, the report said considering such a worst-case situation is "the best scenario to use in making decisions for insurance, resource allocation and contingency planning." The Arctic can be a harsh environment, which gives only a short window for open-water response to an environmental disaster. As such, a delayed response to a fuel spill in the Arctic is plausible.

The study also showed that the impacts of an oil spill would be devastating for Inuit people and the environment. "It's a low-probability, high-consequence event, which means that it happens once in a while, but when it does happen, the consequences are really, really high," said Mawuli Afenyo, a postdoctoral fellow at the University of Manitoba Transport Institute and the lead author of the study.

"If we don't have rapid intervention, first of all, what's going to happen is the oil is going to either go under the ice, is going to get absorbed, it actually could get absorbed in snow," Afenyo said. The oil could also get trapped in between the ice, making it extremely difficult to deal with compared to open water.

[Cheniere signs another deal to supply Corpus Christi LNG expansion]

(S&P Global Platts; July 15) – Cheniere, the largest liquefied natural gas producer in the country, has reached a 15-year deal with Canadian oil and gas producer Tourmaline that is tied to a proposed expansion at the LNG exporter's Corpus Christi liquefaction terminal in Texas, the companies said July 15. Under the deal, Tourmaline will sell about 140 million cubic feet per day of gas to Cheniere, beginning in 2023. The LNG produced from the gas, about 850,000 tonnes per year, will be marketed by Cheniere.

The deal is similar to agreements tied to the Corpus Christi Stage 3 expansion that Cheniere previously reached with gas producers Apache and EOG Resources. Together, the three agreements total 2.55 million tonnes per year of the facility's expected expansion capacity of 10 million tonnes. Cheniere already operates three liquefaction trains at the plant, with a total capacity of 15 million tonnes per year.

The latest gas agreements allow the upstream producers to access a global price by selling their gas to world markets through Cheniere 's LNG exports, though it exposes the companies to greater price risk. Cheniere will pay Tourmaline an LNG-linked price for its gas, based on the Platts Japan-Korea Marker — the benchmark for spot LNG delivered to Northeast Asia — after deductions for shipping costs and a liquefaction fee. Cheniere has not made a final investment decision on the expansion at Corpus Christi.

[Small-scale LNG grows to meet demand in Northeast]

(Natural Gas Intelligence; July 15) - The challenge of transporting natural gas to energy-hungry consumers in the U.S. Northeast is continuing to create opportunities and spur demand for small-scale liquefied natural gas applications and virtual pipeline services throughout the region. Despite the sharp uptick in gas production from the nearby prolific Appalachian Basin over the past decade, pipeline constraints remain an issue in the Northeast, particularly in downstate New York and New England.

Gaps in the pipeline grid have provided inroads for small-scale LNG and compressed natural gas providers that use tanker trucks to reach customers. Companies in the business report strong growth as consumers look for alternative sources of energy amid a global push to cut greenhouse-gas emissions. “Pipelines are getting older by the day,” said Rev LNG’s David Kailbourne, CEO of the Pennsylvania-based firm. Rev liquefies, transports and regasifies supply for small-scale use across the country.

Small-scale LNG and CNG can provide supply in remote and stranded areas with limited or no access to gas pipelines. Besides, it appears increasingly unlikely that another large greenfield pipeline will be built into the Northeast, said East Daley Capital analyst Ryan Smith. Even still, regional consumption continues to grow. In New England alone, gas utility demand has increased by 30% over the past decade amid lower costs for the fuel and conversions from fuel oil, according to the Northeast Gas Association.

Nigeria approves oil and gas overhaul legislation

(Bloomberg; July 16) - Nigerian lawmakers passed long-awaited legislation to overhaul the oil and gas industry, after rowdy scenes in the lower chamber of parliament. The House on July 16 voted for the bill the Senate approved a day earlier, almost bringing to a conclusion a process that began over a decade ago. The government is banking that the law will attract a greater share of global capital into Africa's largest crude producer at a time when investors are looking to transition away from fossil fuels.

The House opted to postpone a vote on the legislation on July 15, which was supposed to be the last day of the current parliamentary session, following protests by members from the southern oil-producing region arguing that oil companies should pay more to communities hosting exploration and production activities. A two-month hiatus was averted when lawmakers returned on July 16 and a majority voted to pass the bill.

The chief sticking point was over how much money producers should allocate to help develop the communities hosting their activities. Southern lawmakers in the House had opposed a clause fixing the rate at 3% of companies' operating expenses, calling for 5%, which led to the last-minute delay. A body representing Nigeria's southern crude-producing region demanded 10%. The reforms — first submitted to parliament in 2008 and conceived more than 20 years ago — are intended to remove legal and regulatory uncertainty that has held back progress on numerous deferred oil and gas projects.