Oil and Gas News Briefs
Compiled by Larry Persily
June 3, 2021

Debate over phasing out natural gas in homes goes nationwide

(The Wall Street Journal; May 31) - A growing fight is unfolding across America as cities consider phasing out natural gas for home cooking and heating, citing concerns about climate change — while some states push back. Major cities including San Francisco, Seattle, Denver, and New York have either enacted or proposed measures to ban or discourage the use of the fossil fuel in new homes and buildings, two years after Berkeley, California, passed the first such prohibition in the U.S. in 2019.

The bans in turn have led Arizona, Texas, Oklahoma, Tennessee, Kansas, and Louisiana to enact laws outlawing such municipal prohibitions in their states before they can spread, arguing that they are overly restrictive and costly. Ohio is considering a similar measure. The outcome of the battle, largely among Democratic-led cities and Republican-run states, has the potential to reshape the future of the utility industry and demand for natural gas, which the U.S. produces more of than any other country.

Proponents of phasing out gas say their aim is to reduce planet-warming emissions by fully electrifying new homes and buildings as wind and solar farms proliferate across the country, making the power grid cleaner. Homes and businesses account for about 13% of the nation's greenhouse gas emissions, according to the EPA, mostly because gas is used in cooking, heating, washers, and dryers. Phase-out opponents in the gas industry cite the higher costs of making many homes fully electric, and point to the added benefit of having a second energy source for heat and cooking during extreme weather events.

OPEC+ sticks with plan to restore oil production slowly

(The Associated Press; June 1) - The OPEC oil cartel and allied producing countries have confirmed plans to restore 2.1 million barrels per day of crude production through July, balancing fears that continuing COVID-19 outbreaks in some countries will sap demand against the rising need for energy in recovering economies around the globe. Energy ministers made the decision during an online meeting June 1.

Saudi Energy Minister Prince Abdulaziz bin Salman said recent market developments proved that the decision to gradually increase production, originally made in April and reconfirmed this week, was "the right decision." However, he added that there are still "clouds on the horizon" regarding the global recovery and demand for energy. The cartel decided to stay the course set at earlier meetings to raise production by 2.1 million barrels per day from May to July.

The combined OPEC+ group led by Saudi Arabia and Russia faces concerns that renewed COVID-19 outbreaks in countries such as India, a major oil consumer, will hurt global demand and weigh on prices. Oil-producing countries made drastic cuts to support prices during the worst of the pandemic slowdown in 2020 and must now judge how much additional oil the market needs as producers slowly add more production. Even with the return of 2.1 million barrels a day of production. OPEC+ participants are still holding back about 6 million barrels a day in capacity to help control the market.

Oil reaches 1-year high as market reacts to OPEC+ decision

(Reuters; June 2) - Oil prices surged on June 2, hitting their highest in more than a year after a decision by OPEC and allies to stick to the plan to gradually restore supply, along with the slow pace of nuclear talks between Iran and the United States. Brent settled at $71.35 a barrel. U.S. West Texas Intermediate crude rose to settle at $68.83.

"The oil market welcomed the OPEC+ decision to stick with its existing production plan, and in conjunction with positive global demand indications, prices are gaining further," said Louise Dickson, Rystad Energy oil markets analyst. Expecting a rebuild in demand, the Organization of the Petroleum Exporting Countries and its allies, known as OPEC+, agreed June 1 to maintain their plan to gradually ease supply curbs through July.

The OPEC+ meeting took 20 minutes, shortest in the group's history, indicating unity among members and their confidence in the market's recovery, analysts said. OPEC+ data show the group is now more upbeat about the pace of rebalancing in the oil market than it was a month ago. "We expect oil prices to move well beyond $70 per barrel toward mid-year," said Norbert Rucker, analyst at Swiss bank Julius Baer. Analysts also said the slow progress of the Iran nuclear talks provides breathing room for demand to catch up before Iranian oil returns to the market if a deal is reached.

Saudi oil minister dismisses IEA road map to net-zero emissions

(S&P Global Platts; June 1) - Saudi Arabia Minister Prince Abdulaziz bin Salman has read the International Energy Agency's recent blockbuster report outlining a road map for the world to achieve net-zero carbon emissions by 2050 and is not impressed. His review: Zero stars. Two thumbs down. "I would have to express my view that I believe it is a sequel of [the] La La Land movie," Prince Abdulaziz said June 1 after OPEC+ ministers met to affirm production levels through July. "Why should I take it seriously?"

The IEA's road map concluded that if the world were to slash carbon emissions to net-zero over the next three decades, global oil supplies would need to shrink more than 8% annually, down to 24 million barrels per day in 2050, from pre-pandemic levels of just above 100 million. That would mean no new oil and gas upstream projects should be developed. But it is not only the IEA that has roiled the oil industry. International oil companies are scaling back major swaths of their oil and gas portfolios under environmental pressure from regulators, climate-change activists, and investors.

For Saudi Arabia, the largest exporter of crude, there is no existential angst, Prince Abdulaziz said. OPEC has warned that if governments heed the IEA report and follow its recommendations, the oil market would be destabilized and fossil fuel investment jeopardized, endangering its members' economies. "The claim that no new oil and gas investments are needed post-2021 stands in stark contrast with conclusions often expressed in other IEA reports and could be the source of potential instability in oil markets if followed by some investors," OPEC said in a report to members.

National oil companies could profit as majors limit investments

(The Wall Street Journal; June 2) - The oil industry could face a golden sunset, particularly for companies developing new reserves. How long it lasts depends on the speed at which economies shift to cleaner energy. Until then vaccines are rolling out and economies are reopening, and oil prices are at a two-year high. While big stock-listed companies will benefit, they cannot take full advantage, faced with growing shareholder pressure to limit oil investments and cut greenhouse-gas emissions.

European majors Shell, Total Energies, and BP have already limited their plans to find new oil reserves, and now U.S. peers Chevron and ExxonMobil are rethinking investments too. In contrast, state-controlled rivals are free to drill to meet future oil demand with scant consideration of their carbon footprint. Most state-run producers answer to domestic politicians in emerging economies more focused on cash flow, local jobs, and tax revenues than environmental concerns.

"The part of development projects that are being operated by OPEC members is going to increase substantially over the next 20 years," said Per Magnus Nysveen, an analyst at consulting firm Rystad Energy. "National oil companies have quite a lot of really nice development projects with low break-even prices down below $30 a barrel." Persian Gulf producers and Brazil's Petrobras are particularly likely to benefit from projects with relatively low-cost supply to fill any gaps left by the majors. Smaller companies might also benefit from the majors' retreat, if they can avoid the same shareholder pressure.

Iran could ‘easily’ boost oil production, oil minister says

(S&P Global Platts; May 31) - Iran could "easily" boost its oil production capacity to 6.5 million barrels per day, Iran's Oil Minister Bijan Zanganeh said May 31, as U.S., Iranian, and European negotiators are set to convene this week for more talks over reinstating the nuclear deal. Zanganeh spoke at a ceremony awarding contracts to study Iran’s giant Azadegan oil field, the ministry's Shana news service reported. At the ceremony, an Iranian official noted that the country has long-term goals of using more crude output domestically for refined products, which in turn can be exported at higher margins.

"After exploitation of oil, we can process it in petro-refineries. Increasing the output doesn't mean selling oil in crude," he said. "My advice to the upcoming government is to prioritize oil output increases to a total 6.5 million barrels per day," Zanganeh said. As pressure builds to curb environmental damage from oil and gas, he added, "It wouldn't take long that conventions will come to restrict oil production and will not allow countries and governments to produce oil. Therefore, until we have time, we should raise oil production capacity because international restrictions will become problematic for us.”

"Don't say there is no market for oil," Zanganeh said, noting that Iraq used to never pump more than 3 million barrels per day, but now is producing and finding buyers for its output. Iranian crude and condensate exports were averaging as high as 2.9 million in early May 2018, when the U.S. under the Trump administration withdrew from the Iran nuclear deal. Since then exports have fallen below 1 million in some months.

Strong holiday travel bodes well for rising oil demand

(Bloomberg; June 1) - From bustling U.S. airports to surging demand for gasoline, all signs from Memorial Day weekend reaffirm the oil market’s bet that Americans will be out traveling in force this summer. A peek at travel in the world’s largest oil-consuming country over the past few days indicates some of the heaviest driving and flying since COVID-19 decimated consumption last spring. That’s good news for Saudi Arabia and its OPEC+ allies as they bring back output, counting on a tightening crude market.

A return of the world’s No. 1 economy to normalcy is crucial to cement the recovery that has seen oil prices jump to the highest since 2018, little more than a year after they went negative during the virus-driven crash. “The cautious optimism has turned to fully optimistic,” said Michael Tran, an analyst at RBC Capital Markets. “We were in the stage where we all thought this was going to be a barn-burner of a summer for mobility, and now that we’ve crossed past Memorial Day and into the summer,” some of the confirmation is “coming through from the real-time data.”

U.S. airports reached passenger levels not seen since early March 2020. The number of passengers going through airport checkpoints nationwide on May 28 neared 2 million for the first since the weeks before flights were grounded by the hundreds last year, according to Transportation Security Administration data.

Nova Scotia LNG project loses banker over environmental concerns

(Reuters; May 28) - Canada's Pieridae Energy has hired Japanese lender MUFG Bank to help raise $10 billion for its proposed Goldboro liquefied natural gas export plant in Nova Scotia, it told Reuters on May 27. The decision to hire a new banker came after Societe Generale, its previous financial adviser, committed to phasing out of new shale gas project financing on environmental grounds. Societe Generale confirmed it had stopped providing support to both Goldboro and a separate project, Quebec LNG, to limit its exposure to shale oil and gas production in North America by 2023.

Historically a backer of LNG projects, SocGen's departure reduces investment options for North American LNG projects still requiring financing. Royal Bank of Scotland and HSBC also have tightened restrictions on lending for high-carbon energy projects.

Pieridae separately said it will develop a carbon-capture and sequestration facility in Alberta that would fully offset the Goldboro project's carbon footprint. The planned complex echoes similar efforts by other LNG developers to meet increasing customer demand for environmental, social and governance (ESG) measures. "Without a concrete, measurable ESG plan, nothing is financeable these days," said Pieridae CEO Alfred Sorensen. Pieridae said backing by MUFG and the carbon-capture plan could help the company make a final investment decision on Goldboro by June 30.

Sempra looking at second LNG export terminal in Mexico

(Natural Gas Intelligence; June 1) – California-based Sempra Energy is looking to develop a second liquefied natural gas project in Mexico called Vista Pacifico at Topolobampo, in Sinaloa State. Sempra LNG regional vice president Brian Lloyd said last week the project would import natural gas from U.S. shale basins by pipeline for re-export as LNG. Vista Pacifico would have an export capacity of 3 million to 4 million tonnes per year, Lloyd said.

This project would be in addition to the Sempra Energy-led Energia Costa Azul LNG project under construction in Baja California. " We do believe that there's existing pipeline capacity in the U.S. and Mexico that we think we can move additional volumes off the West Coast of North America," Lloyd said. Energy producers and advocates in the U.S. Rockies are looking to Mexico's Pacific Coast as an LNG export option since the outlook for a Western U.S. export facility appears increasingly unlikely.

Sempra executives recently said during the company's first-quarter earnings call that it was looking at ways to "green up" its LNG sites, including deploying carbon-capture and sequestration technology and providing emissions certificates to buyers. Lloyd said carbon capture was unlikely to be implemented at the Baja California site, but Sempra may look into carbon-conversion options in Mexico.

China imports record volume of LNG for May

(Reuters; June 1) - China imported almost 7.3 million tonnes of liquefied natural gas in May, a record volume for the month, ship-tracking data showed, as industrial activity picked up pace amid strong domestic demand. The volume is up about 10% to 12% from April's imports of 6.5 million to 6.6 million tonnes, the data from Refinitiv Eikon and data intelligence firm Kpler showed June 1. It was significantly higher than the nearly 5.8 million tonnes of LNG imported in May last year, Refinitiv Eikon data showed.

The world's second-largest LNG importer typically takes in about 7 million to 8 million tonnes a month in the winter when its demand peaks for power generation, but its gas appetite has been increasing this year even during the off-peak season, pushing spot prices to a multi-month high. "Chinese buyers were actively buying cargoes in the past few months as their demand has been quite good," a Singapore-based trader said.

China's economy posted record growth in the first quarter as it recovered quickly from the pandemic, although analysts expect the brisk expansion to moderate later this year. China looks on track to overtake Japan as the world's top LNG importer. Japan imported just 5.12 million tonnes of LNG in May, its lowest monthly volume since June last year, as the country grapples with a fourth wave of COVID-19.

Beijing Gas advertises for LNG supply for new import terminal

(Reuters; May 31) - Beijing Gas Singapore, the trading unit of Beijing Gas Group, has invited expressions of interest to supply liquefied natural gas under a 10-year deal 2023-2032, according to a notice posted on the Shanghai Petroleum and Natural Gas Exchange. Potential suppliers are required to submit their interest by July 21, according to the notice. The supply is for the new LNG receiving terminal that Beijing Gas is building in the northern Chinese city of Tianjin, an industry source said.

The terminal was given the green light early last year and will include 10 LNG storage tanks with a capacity to handle 5 million tonnes of LNG per year. The receiving terminal is expected to start operations by the end of 2022, according to the Beijing Gas website.

New LNG project under construction at busy industrial yard in Russia

(The Independent Barents Observer; Norway; May 30) - A variety of buildings, facilities, and docks comprise a new skyline like the Russian north has never seen before. Once a sleepy village, Belokamenka (Russian for "White Stone") is nowadays the busiest industrial construction site anywhere in the circumpolar north. More than 100 companies are involved in creating what is called the LNG Construction Center run by gas producer Novatek. Few of the workers are from Murmansk. Some are from China, many are from Central Asian former Soviet republics, and some are from southern Russia.

Work on fabricating the gravity-based structure that will hold the liquefaction plant for Train 1 of the Arctic LNG-2 project has already started at the main dock. The giant modular structures with high-tech LNG factories atop will, when ready, be towed from Belokamenka across the Barents and Kara seas to the coast of the Gydan Peninsula in Ob Bay in Siberia. Production of liquified natural gas will start in 2023. A year later in 2024, Train 2 will start production, while the final train is set to start operation in 2026.

To compare the scale, just look across the Kola Bay where Russia's powerful military's Northern Fleet has its main base at Severomorsk. While the harbor on the waterfront in Severomorsk is about a mile in length, the waterfront of the new yard in Belokamenka is 1.5 miles wide. The construction site covers more than 1.5 square miles. The tallest shiphall at the yard is 290 feet high. That is 50 feet taller than what until now had been the highest building on the Kola Peninsula: The Hotel Arktika in Murmansk.

Final liquefaction train starts production at Yamal

(Reuters; June 1) - The fourth and the last train at Russia's Yamal LNG plant has reached full capacity, the Kommersant newspaper reported June 1, citing unnamed sources. Novatek, Yamal LNG's largest shareholder, declined to comment. Full-scale production at the fourth liquefaction unit, with an annual capacity of 950,000 tonnes, had been delayed. Novatek said in January that the production unit had started up in test mode. The smallest of four trains at the Arctic terminal brings Yamal's total output capacity to 17.5 million tonnes a year.

Novatek plans to sell LNG from the newest production unit on the spot market. It mainly sells gas from the other three, larger trains at Yamal under long-term deals, shipping to Europe and Asia through the Northern Sea Route in the Arctic. Novatek has a 50.1% stake in Yamal LNG. French energy major Total holds 20%, while China's CNPC and Silk Road Fund have 20% and 9.9% respectively. Yamal LNG started production in 2017.

The Philippines will start LNG imports as domestic gas in decline

(Nikkei Asia; June 2) - Southeast Asia countries are set to expand their imports of liquefied natural gas as the depletion of domestic gas reserves looms, setting the stage for a realignment in the global LNG market. In the Philippines, major power utility First Gen will begin construction on a $300 million offshore LNG receiving terminal this month near Batangas, a port city in the southern portion of the main island of Luzon. The large-scale project is the first of its kind for the nation.

"This is particularly important given the declining supply of the Malampaya resource, which the Philippines relies on for natural gas," said Jon Russell, chief commercial officer at First Gen. Malampaya, the Philippines' sole gas field, is expected to run out by 2027. LNG imports are slated to begin in the third quarter of 2022. The LNG "may come from many possible locations, including the Middle East, North America, Australia, Africa, and Russia," Russell said. First Gen is partnering with Tokyo Gas on the project.

The so-called floating storage regasification unit not only costs less to build than an onshore terminal, but takes less time to construct. The looming depletion of the Malampaya gas field exposes the Philippines to a risk of power shortages in the future. Gas accounts for 20% of the country's power generation, and electricity demand is projected to rise at least 5% a year through 2040. There are plans to develop new gas fields, but those are plagued by uncertainties due to territorial disputes with China.

Trucked LNG prices in southern China climb amid strong demand

(S&P Global Platts; June 2) - Trucked LNG prices in southern China's Pearl River Delta hit around Yuan 4,000 per tonne (about $12 per million Btu) by the end of May on the back of strong summer demand from the power generation and industrial sectors, and amid growing electricity shortages in the heavily industrialized region. The strong downstream prices are in line with high spot LNG prices —the S&P Global Platts benchmark price for spot LNG in Northeast Asia has been above $10 since May 21.

The strong demand is supporting LNG imports, and gas-fired generation in provinces like Guangdong is at full utilization to keep up with electricity demand, despite this week's localized outbreak of COVID-19 in the provincial capital of Guangzhou. However, gas prices are hovering at levels where rising fuel prices cannot be passed on to end-users in many sectors. Current trucked LNG prices are 11% higher month on month and around 43% higher year on year, according to traders and data provider.

Some factories have lowered their operating rates due to high gas prices, and some companies have reallocated production to other provinces where feedstock costs are not as high as Guangdong, according to a source in Foshan, one of the biggest manufacturing cities in the province. A source with China Southern Power Grid said electricity supply controls, implemented to prevent outages during peak hours, will last for the whole summer due to strong demand from the industrial sector, which has been flooded with orders amid wider economic recovery from COVID-19.

North Dakota cuts interest rate in half on overdue royalties

(Grand Forks Herald; ND; May 29) - A bill passed by North Dakota lawmakers has generated movement in a drawn-out quarrel between the state and oil companies over old royalty payments, but the issue remains tangled in financial and legal disputes. The industry-backed legislation cuts the maximum annual interest rate and penalties applied to overdue royalty payments from 30% to 15%.

The law takes effect in August and also retroactively establishes a seven-year statute of limitations for collecting royalty payments, meaning the Department of Trust Lands can't require companies to pony up on outstanding royalty bills accrued before 2013. The state currently requires companies to pay old royalties and late fees dating back to when they first began operating in the state — for some, that could be several decades.

The state claims 27 companies, including Continental Resources, ConocoPhillips, and Hess, owe hundreds of millions of dollars in royalties, which would mostly go to support K-12 public education. Since the governor signed the bill in April, the state has received 18 settlement offers from firms that owe old royalties. The state has accepted three proposals at the full amount owed, but others are still being reviewed or negotiated.

The sudden shift toward resolving the old payments breaks a near gridlock with the companies, many of which had said they would hold out for a final ruling on a lawsuit over whether they could deduct post-production costs from their royalty payments.

BP and partners will try to push more oil from U.K. offshore field

(S&P Global Platts; May 27) - BP has agreed to a partnership with technology provider Baker Hughes and Norway's Oldfjell Drilling to boost output at the 7 billion-barrel Clair heavy oil field in the west of Shetland area, which has hit production difficulties. BP said the partnership would bring the latest technology and expertise to bear on drilling and well completion at what it considers the U.K.'s largest oil field, with an initial goal of boosting output from the latest phase of the offshore project, Clair Ridge, by 15%.

The $10 billion Clair Ridge project came online in November 2018 with a peak production target of 120,000 barrels per day and an anticipated life of 40 years, but output was barely a third of the targeted level last year. Shell, Chevron, and ConocoPhillips are partners in the field, one of the few remaining U.K. upstream assets for the U.S. companies. BP is the operator with a stake of 28.6%, while Shell holds 28%, ConocoPhillips 24%, and Chevron 19.4%.

The latest agreement, initially with a five-year span, "aims to improve production across Clair, initially targeting a 15% increase in average annual production on Clair Ridge, the second phase development of the field." Production problems at Clair were flagged in March by one of BP's partners at the field, Chrysaor, which has subsequently become Harbour Energy. Despite the large volume of resources discovered at Clair, they are spread out over a large area and the reservoir is viewed as unusually challenging.

Russia's first LNG-powered, LNG-refueling ship completes sea trials

(Reuters; May 28) - Russia's first ship designed to run on liquefied natural gas and fuel other vessels with LNG has completed its sea trials, energy firm Gazprom Neft reported May 28. The Dmitry Mendeleev is expected to enter Gazprom Neft's fleet in the second half of this year, the company said. "The next stage will be the testing of systems for loading, storing and discharging of LNG," it said.

The Dmitry Mendeleev is an Arc4 ice-class vessel that will be able to transport up to 1.5 million gallons of LNG (about 120 million cubic feet of natural gas). It will operate in ports on the Gulf of Finland and the Baltic Sea, including St. Petersburg, Ust-Luga and Primorsk. The shipping sector is under pressure to reduce carbon emissions and last year adopted stricter rules on sulfur content in marine fuel. Operators are looking to LNG to fuel tankers and cruise liners, in addition to cargo ships.

Russian official says Sakhalin Island could be carbon neutral by 2025

(Reuters; June 2) - Russia aims to make the fossil-fuel rich Pacific island of Sakhalin carbon neutral by 2025, and later to extend the ambition to its top oil-production province in western Siberia, a deputy prime minister said. Along with the world's other leading oil-producing nations, Russia is under pressure as governments seek to tackle climate change and investors turn away from fossil fuels. Oil and gas companies have set goals to reduce emissions and shift their portfolios toward renewable energy.

Viktoria Abramchenko, who oversees ecology, nature, and agriculture in the Russian government, told Reuters that officials at Sakhalin, Russia's largest island, are working on how to achieve carbon neutrality. Producers at Sakhalin Island pump 400,000 barrels of oil per day. A liquefied natural gas production and export plant also operates on the island in Russia's Far East.

Abramchenko said measures to curb pollution have yet to be chosen, but the economy ministry would present draft legislation by September. Apart from offsetting measures, such as tree-planting, carbon emissions can also be captured and stored, but the technology is expensive and still in development.