

# Oil and Gas News Briefs

## Compiled by Larry Persily

### June 1, 2023

#### **More tankers operating in ‘dark mode’ are moving Russian oil**

(S&P Global; May 30) - As Russia seeks to up its game in circumventing Western sanctions, more oil tankers are turning off their location transponders in risky but lucrative cargo operations. An analysis of data from S&P Global Market Intelligence, including Maritime Intelligence Risk Suite and Maritime Portal, has found a 225% increase in the shadowy practice of switching off the automatic identification system designed to maintain maritime safety and more recently to help track shipments of oil.

The data show 215 tankers were engaged in 524 dark ship-to-ship (STS) transfers in the first quarter of this year, compared with 72 tankers in 161 transfers in the same period a year earlier, before Russia was hit by sanctions and caps on the price of the oil it sells. In Crimean waters, Russia's exclusive economic zone and sea lanes near Kaliningrad, 312 dark transfers were observed in January-March, according to data. This compares with just six a year ago and shows Russia is at the center of a growing trend to use such techniques to evade international scrutiny when transporting oil.

The development has come amid a deep discount of Russia's main crude export grade Urals to Dated Brent since the Kremlin's invasion of Ukraine. According to S&P Global Commodity Insights' assessments, the discount averaged \$37.80 per barrel in the first quarter of this year versus \$17.70 in the first quarter of 2022. It was \$3.70 in January 2022. Buying Russian oil remains a highly profitable business despite price caps and sanctions. For tanker owners, there could be millions of dollars to make per voyage.

But adding to the risks is that ships in “dark mode” tend to be old, which means they could have aging equipment and weaker hulls due to corrosion. Many ships in dark ship-to-ship transfer trade have opted not to take out robust insurance coverage.

#### **Company behind proposed U.S. refinery lacks permits and financing**

(Barron's; May 29) - An Oklahoma oil hub could soon be home to the first large-scale oil refinery constructed in the U.S. in nearly 50 years. But building a U.S. refinery is so complicated that at least one analyst is skeptical it will happen. Privately held Southern Rock Energy Partners says it will build a refinery capable of producing 250,000 barrels per day of products in Cushing, the city where the U.S. oil price benchmark, West Texas Intermediate, is measured. The company says it will cost \$5.6 billion and open in 2027.

“There still is a demand for fossil fuels for transportation,” said Steven Ward, managing member of Texas-based Southern Rock. Ward has been in the oil and gas business for about 30 years, but has never built or operated a refinery. The refinery will only process U.S.-produced oil; most large U.S. refineries were built to process heavier imported crudes that can be more complex to handle. The company still needs state and federal permits to start construction, and has only part of the financing necessary, Ward said.

The last major U.S. refinery was built in 1977 in Louisiana. It’s difficult to get permits and financing, and refineries can take several years to build — a tough proposition. Last year, Chevron CEO Mike Wirth predicted that no large-scale refinery would ever be built again in the U.S. Matthew Blair, an analyst at Tudor, Pickering, Holt, wrote in an email to Barron’s that the odds are low that Southern Rock’s plans will come to fruition. “It seems like every year someone announces a new refinery for the U.S.,” he wrote. “But they almost never get built, given the challenges on economics and permitting.”

### **Financing for oil and gas projects is diminishing, says analyst**

(Rigzone; May 29) - Is there a danger that oil and gas could run out of financing? It depends, said Ed Morse, the global head of commodities research at Citigroup. “Yes, there is a danger, or a risk at least of a severely diminished ability to privately finance oil and gas projects. ... But the impact really depends on the pace of technological change and cost structures for alternative fuels,” said Morse, who has been following the energy industry for decades.

“We are mainly looking at two main uses — transportation and power generation. And we are mainly looking at two types of economies — advanced and emerging. And we are looking at an energy transition process that gives rise to high prices at times, domestic and global tensions, and problems. So, it will be a bumpy road whether or not financing is available,” Morse explained. “But it will be all the bumpier with financing restricted before a full enough transition to alternative fuels and storage/batteries are available for days when renewables are too intermittent,” he warned.

Morse said during an interview with Rigzone that there is no doubt that the sources of financing for oil and gas are diminishing, adding that there are financial institutions on the private side that are unwilling to lend for certain types of projects. In addition, “Large oil companies are not eager to enter expensive projects that take more than 10 years for a return on capital,” Morse said. “This is particularly true of European firms, which are basically limiting projects to those that yield a return on capital in five years.”

## **Reuters survey finds analysts expect oil will average \$84 this year**

(Reuters; May 31) - Oil prices will creep up from current levels as OPEC+ maintains its restrictions on supplies, but economic headwinds will keep them below \$90 a barrel this year, a Reuters poll showed on May 31. A survey of 43 economists and analysts forecast Brent crude would average \$84.73 a barrel in 2023, down from the \$87.10 consensus in April and current levels of around \$73.

Most analysts expect oil to trade around the \$80-level this year, with data and analytics firm Kpler noting that "macroeconomic concerns are a major driver of crude prices this year, overshadowing relatively tight fundamentals." The global benchmark has averaged around \$80.95 per barrel so far this year. U.S. crude is expected to average \$79.20 a barrel in 2023, down from the previous month's consensus of \$82.23.

Worries around robust monetary tightening, U.S. bank failures, the risk of a U.S. debt default and China's uneven economic performance have limited the market's upside, Matthew Sherwood, lead commodities analyst at EIU, said. But any further production cuts from OPEC+ at its June 4 meeting in Vienna could provide a floor for prices, some analysts said. "Given the macro uncertainties and fall in oil prices in May, we think OPEC would want to adjust production targets down further, but may have to risk ceding market share to Russia," Suvro Sarkar, energy sector team lead at DBS Bank, said.

## **Texas Legislature restores tax break for oil, gas and manufacturing**

(Houston Chronicle; May 29) - State lawmakers struck an 11th-hour deal May 28 to restore a program granting companies discounts on school property taxes in an effort to lure them to Texas, delivering a top priority of business groups and Republican leaders in the waning moments of the legislative session. The final draft broadly mirrors the corporate incentive program it replaces, though with key changes aimed at appeasing bipartisan critics who refused to extend the law two years ago.

The new program subsidizes only half of a project's property taxes toward school districts, rather than nearly the full amount, and no longer allows companies to share their tax savings with the school districts that approve projects. It also cuts out wind and solar projects, as demanded by Gov. Greg Abbott and Lt. Gov. Dan Patrick.

"I think we struck a balance that makes a lot of sense," said state Democratic Sen. Jose Menendez, citing the bill's higher wage standards than in earlier drafts. The practice of companies offering additional payments to school districts — one of the old law's more controversial features — was criticized as a perverse incentive for school trustees to never turn down a deal, particularly because taxes paid by all Texans were used to ensure districts didn't see a further drop in revenue from granting the tax breaks.

A 2021 Houston Chronicle investigation found that the tax subsidies routinely went to projects that would have come to Texas either way — including some that were already announced or underway when a company applied for the tax incentives.

### **OPEC welcomes Iran's full return to oil market if U.S. lifts sanctions**

(Reuters; May 29) - OPEC will welcome Iran's full return to the oil market when U.S. sanctions are lifted, the secretary general of the Organization of the Petroleum Exporting Countries told the Iranian oil ministry's website SHANA on May 29. Iran is an OPEC member, although its oil exports are subject to U.S. sanctions aimed at curbing Tehran's nuclear program. Secretary General Haitham Al Ghais, who is visiting Tehran for the first time, added that Iran has the capacity to bring on significant oil production within a short period of time.

"We believe that Iran is a responsible player amongst its family members, the countries in the OPEC group. I'm sure there will be good work together, in synchronization, to ensure that the market will remain balanced as OPEC has continued to do over the past many years," SHANA's English-language website cited him as saying.

### **Qatar signs 15-year deal to supply LNG to Bangladesh**

(Reuters; June 1) - QatarEnergy has signed a 15-year deal to supply 1.8 million tonnes of liquefied natural gas a year to Bangladesh's state-owned PetroBangla starting in 2026, Qatar CEO Saad al-Kaabi said on June 1. The latest contract with an Asian customer by the world's top LNG exporter comes as Western countries push to win a chunk of Qatar's LNG supply. It is also QatarEnergy's second to Asia since it started selling the gas expected to come on stream from the North Field expansion project.

"The majority (of LNG exports) will be going to Asia and the other will be going to Europe and we'll be more than sold out" from the expansion project, Kaabi told a news conference in Doha, referring to the two-phase North Field expansion. The expansion will raise Qatar's liquefaction capacity to 126 million tonnes per year by 2027, from 77 million currently. This will be Bangladesh's second long-term deal with Qatar as it desperately looks for long-term LNG supplies at a cheaper rate after spot-market prices spiked following the Ukraine war last year. Terms of the latest deal were not disclosed.

### **Indonesia will limit future LNG exports to keep gas for domestic use**

(The Jakarta Post; Indonesia; May 31) - The Indonesian government plans to prohibit new contracts for the export of liquified natural gas so as to help supply domestic

industries, Coordinating Maritime Affairs and Investment Minister Luhut Binsar Pandjaitan announced on May 30. Luhut said the ban would not affect ongoing export contracts but that the policy would apply for contract renewals.

“We have been exporting LNG for many years, but now we need it, as it turns out. We don’t want to export anymore. For ongoing contracts, by all means, continue, but those that have expired, stop,” Luhut said in his opening remarks for the 2023 International and Indonesia Carbon Capture and Storage Forum. He noted that domestic demand for the commodity was on the rise, particularly in the industrial sector.

“Our petrochemical [industry] needs gas. It has been importing a lot [of LNG], and we are building the industry. ... We need gas,” Luhut said. Some 30% of Indonesia’s LNG exports have gone to China over the past five years, according to government statistics, and smaller portions went to South Korea, Japan and Taiwan. Indonesia’s LNG exports in 2021 were half the level of a decade earlier, down to 10.7 million tonnes. Last year, Indonesia missed its gas production goal by 7.8%, according to government statistics.

### **[FERC approves gas line that will serve LNG export project in Mexico](#)**

(Reuters; May 30) - Canadian energy company TC Energy’s North Baja Pipeline unit has received permission from U.S. energy regulators to put the North Baja natural gas pipeline expansion in Arizona and California into service. In a filing on May 30, the Federal Energy Regulatory Commission clarified that its May 25 order included approval for all remaining facilities of the North Baja expansion.

The expansion, at almost 500 million cubic feet per day, will supply more U.S. natural gas to Mexico, including to U.S. energy company Sempra Energy’s Costa Azul liquefied natural gas export plant in Mexico, which is under construction. The roughly US\$2 billion Costa Azul project on Mexico’s Pacific Coast is expected to enter service around mid-2025. The North Baja expansion cost an estimated US\$127 million. North Baja said it completed work on some facilities earlier this year.

### **[Environmental groups ask more time to comment on B.C. LNG project](#)**

(Vancouver Sun; May 29) - More than a dozen environmental groups are asking British Columbia to delay planning on what would be B.C.’s second-largest liquefied natural gas project so that its effects on federal and provincial emissions caps could be considered. In a letter published May 25, Pat Moss, a coordinator for the environmental group Friends of Wild Salmon and a signatory of the letter, wrote that a lack of details on pending federal and provincial emission caps make it difficult to determine how the C\$10 billion, Nisga’a First Nation-led Ksi Lisims project would impact emissions targets.

They asked the province to “significantly” extend the current public comment period, which ran from April 27 to May 29, or to postpone the environmental assessment until more information on federal and provincial emissions caps is available. “A public comment period should not be conducted when it is unclear how forthcoming legislation and regulations will impact what needs to be considered,” Moss wrote.

Matthew Borghese, a spokesperson for B.C.’s Environmental Assessment Office, said the agency was not planning to extend the public comment period. The Environmental Assessment Act requires the office to take into account during the environmental assessment process a project’s impact on the province’s greenhouse gas emissions. Nisga’a leadership say the Ksi Lisims project — proposed for northwest B.C. near the border with Alaska — would be net-zero emissions, in part by tapping into B.C. Hydro’s electrical grid to power the facility as well as a carbon offset management program.

### **India’s Oil and Gas Corp. plans \$12 billion in green investments**

(Bloomberg; May 29) - India’s Oil and Natural Gas Corp. aims to invest 1 trillion rupees (\$12.1 billion) by 2030 in a bid to balance its fossil fuel-heavy energy portfolio with green projects. The state-controlled driller that produces more than half the nation’s oil and gas plans to grow its renewable power portfolio to 10,000 megawatts by 2030 from 189 megawatts at the end of March, Chairman Arun Kumar Singh said during a press briefing May 29 in Mumbai. It will also focus on using clean energy to produce ammonia and additional technologies that can offer around-the-clock generation.

“India will continue to grow in fossil fuel demand until 2040, but at the same time we have to step up our efforts for green energy,” Singh said. “We have to do this so that both the worlds can co-exist.” ONGC joins Indian Oil Corp. and privately held Reliance Industries as major fossil fuel powers in the nation that have announced big-ticket investments in carbon-free energy. Singh also said the company would try to zero out its direct emissions — but not those that come from the oil and gas it sells — by 2038.

“Since we have cash flow, possibly in comparison to others, we will find it easier to do,” Singh said. “We can take a little riskier position.” The firm has no plans to stop investing in fossil fuels. Its capital spending plan of 301.25 billion rupees (US\$3.6 billion) for the current fiscal year is almost all dedicated to exploration and development of its oil and gas blocks. Its overseas unit, ONGC Videsh, is considering bidding for blocks in Guyana, and is also mulling acquisition opportunities in Africa and Latin America.

### **Saudi hydrogen project plans to start production next year**

(Bloomberg; May 30) - The Neom hydrogen project, part of a \$500 billion industrial and tourist development on Saudi Arabia’s Red Sea coast, will begin producing fuel for

transportation next year, according to the head of the venture. By mid-2024, Neom will be making hydrogen for vehicles such as buses and trucks, Dave Edmondson, chief executive officer of Neom Green Hydrogen Co., said in Dubai. A larger plant, focusing on exports, is also being developed.

NGHC — a venture between local firm ACWA Power, state-backed Neom and U.S.-based Air Products & Chemicals — is part of Riyadh's ambitious plans to expand in clean-tech industries as it prepares for a future beyond fossil fuels. Green hydrogen is still far more expensive than oil and natural gas, but developers are confident they can reduce costs enough to make it competitive.

The bigger plant, an \$8.5 billion project designed to produce 600 tons of hydrogen a day using wind and solar power, will start exporting fuel in the form of ammonia in 2026. A third hydrogen facility, potentially up and running in 2028 or 2029, would likely be aimed at supplying energy to local industry, according to Edmondson. "We are expecting additional investments in Neom," he said, adding that "efficiencies learned will help to bring down the costs of future facilities."

### **[U.S. company picks Finland for hydrogen investment](#)**

(Reuters; May 30) - Plug Power, a U.S. maker of hydrogen fuel systems, said on May 30 it aims to build three plants in Finland costing some \$6 billion to produce green hydrogen and ammonia for the European market. The company said it was in talks with potential financial investors and debt providers and aims to find industrial partners to secure offtake for its production ahead of a final investment decision in 2025 or 2026.

Plug Power had spent two years searching around the world for the right locations, CEO Andy Marsh told Reuters on the sidelines of a presentation in Helsinki. "When you look at the Finnish grid, it's 87% renewable already. That really makes it much simpler and straight-forward to generate green hydrogen," Marsh said. Of the overall investment, 25% would come in the form of equity and 75% from debt, he added. Marsh did not say how much of the equity was expected to come from financial investors.

The company said it had secured access to land near three port cities for the construction of a plant for liquid hydrogen and ammonia, a facility to generate hydrogen for green steel, and a site to make hydrogen for transportation.

### **[Indonesia planning 200-megawatt solar panel project](#)**

(Reuters; May 28) - Indonesian state utility Perusahaan Listrik Negara is seeking a \$700 million investment to install a 200-megawatt solar panel project that will replace diesel power generators in a bid to reduce carbon emissions, the company said May 27. It's

part of its target to reach net-zero carbon emissions by 2060. PLN has planned to have 4.68 gigawatts of solar panels installed between 2021 and 2030.

The company's director, Evy Haryadi, said the 200-megawatt solar panel is the first phase of a longer-term plan to replace 1 gigawatt of diesel power plants with solar power. He didn't provide details on the timeline for the initial phase. A coalition of countries has pledged \$20 billion of public and private financing to help Indonesia transition to cleaner energy under the Just Energy Transition Partnership.

### **Critics decry Mexico's decision to label some gas-fired power 'clean'**

(Reuters; May 29) - A move by Mexico's energy regulator to declare some natural gas-fired power as "clean" drew criticism from environmental groups that say the change will not help the country reach its clean-energy targets. Mexico's Energy Regulatory Commission, known by CRE for its initials in Spanish, on May 26 announced changes to standards for energy-efficiency measurements for power plants.

In a document on the government's official gazette, CRE said some electricity produced from co-generation plants that burn gas "will be considered clean electric energy" if the plants meet certain requirements. Gas is generally considered by energy analysts to be a transition fuel, a cleaner-burning power source than coal or fuel oil that can bridge a gradual switch to renewables. Gas itself is not usually referred to as a clean energy.

The reclassification drew criticism from environmentalists who say the regulator is endorsing a fuel that creates pollution, poses health risks and contributes to global warming. "The world would be made to believe that our country is increasing the percentage of renewable energies in our energy matrix when in reality it is not," said four environmental organizations, including Greenpeace, in a joint statement. Mexico's climate change law sets a goal for 35% of electricity from clean sources by 2024.