

Oil and Gas News Briefs

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Oil and gas industry totals largest write-down since 2010

(The Wall Street Journal; Dec. 27) - The pandemic has triggered the largest revision to the value of the oil industry's assets in at least a decade, as companies sour on costly projects amid the prospect of low prices for years. Oil and gas companies in North America and Europe wrote down \$145 billion combined in the first three quarters of 2020, the most for that nine-month period since at least 2010, according to a Wall Street Journal analysis. It's equivalent to about 10% of the companies' collective market value.

Producers frequently write down assets when prices crash, as cash flows diminish. This year's reappraisal is among its starkest ever because companies also face longer-term uncertainty over future demand for their main products amid the rise of electric cars, the proliferation of renewable energy and growing concern about climate change.

Regina Mayor, who leads KPMG's energy practice, said the write-downs represent not only the diminished short-term value of the assets but also many companies' belief that oil prices may never fully recover. The reassessment comes at the end of an era in which a perceived scarcity of energy supplies drove a rush to buy up reserves. But concerns about long-term demand are exacerbating the oversupply of fossil fuels, and companies say they have become more selective about where they invest.

The assets that companies are writing down run the gamut from U.S. shale gas reserves to mega-offshore projects and intangible assets. In coming years, competition from renewable energy and policy changes for fossil fuels could trigger further reviews of oil-and-gas assets' ability to generate future cash flows under U.S. accounting rules, said Philip Keejae Hong, an accounting professor at Central Michigan University.

'Peak investible oil' not a good sign for U.S. producers

(Pensions & Investments commentary; Dec. 28) - As the world awaits broad availability of COVID-19 vaccines, the consequences of a severely weakened U.S. oil industry are flying under the radar. With continued lockdowns and the West Texas Intermediate oil price hovering in the \$40s, a growing chorus believes that U.S. shale oil production has peaked. Institutional investors expect industry consolidation to continue and global energy analysts predict U.S. oil production to continue to decline: It has already fallen to about 10.7 million barrels of oil per day, from a high of 13 million earlier this year.

As capital continues to flee the oil sector in favor of energy-transition technologies, we are beginning another tectonic shift — the global oil industry will be increasingly dominated by autocratic governments, not free enterprises in North America. This is "peak investible oil," a global challenge. Peak investible differs from "peak oil demand," which has become a hot topic along with the "electrification of everything" following Tesla's rocketing stock price and BP's prediction of peak oil demand in the next decade.

Peak investible oil is a theory that investor-controlled oil production has peaked, and that OPEC, Russia and other countries' national oil companies will take an increasing share of the market. Three primary facts support peak investible oil: U.S. shale oil production will continue to decline; major European oil companies' elevated focus on energy transition will reduce their oil market share over the next decade; and global oil demand will grow post-vaccine. It means the market share controlled by OPEC and nationally owned oil companies will grow and U.S. energy independence will dwindle.

Russia does not expect global oil demand to fully recover in 2021

(Argus Media; Dec. 28) - World oil demand will continue to recover in 2021 but fall short of pre-pandemic levels by the end of next year, Russian Deputy Prime Minister Alexander Novak said Dec. 28. Oil demand is still somewhere between 7 million and 8 million barrels per day below pre-pandemic levels, Novak said. "We expect further growth of [only] about 5 million to 6 million next year."

Novak was speaking a week ahead of OPEC's next ministerial meeting on Jan. 4. The meeting will be the group's first since it agreed last month to scale back a planned output increase in January to 500,000 barrels per day and to meet once every month throughout the first quarter to decide on further adjustments beyond January.

The OPEC+ group, which includes Russia, has said that further increases will be capped at 500,000 barrels per day each month, although several ministers, among them Saudi Oil Minister Prince Abdulaziz bin Salman, have said production cuts are also possible. Next week's meeting would look at policy options for February.

Texas oil producer says this year 'has been a doozy'

(Reuters; Dec. 28) - This year was like no other for oil prices. Even as global prices end the year at about \$51 a barrel, near the average for 2015-2017, it marks a year of volatility. "We really haven't seen anything like this — not in the financial crisis, not after 9/11," said Peter McNally, global sector lead for industrials, materials and energy at research firm Third Bridge. "The impact on demand was remarkable and swift."

Fossil-fuel demand in coming years could remain soft even after the pandemic as countries seek to limit emissions to slow climate change. Major oil companies, such as BP and Total, published forecasts that include scenarios where global oil demand may have peaked in 2019. World oil and liquid fuels production fell in 2020 to 94.25 million barrels per day from 100.61 million in 2019, and output is expected to recover only to 97.42 million next year, the U.S. Energy Information Administration said.

“Every cycle feels like the worst when you’re going through it, but this one has been a doozy,” said John Roby, chief executive of Dallas-based oil producer Teal Natural Resources. The changing landscape poses a threat to refiners. About 1.5 million barrels per day of processing capacity has been taken off the market, Morgan Stanley said. The next several months are likely to be volatile as investors weigh tepid demand against another potential spike in oil supply from producers, including OPEC and its allies.

North Dakota faces a lot of obstacles to restoring oil production

(Financial Times; London; Dec. 28) - The price crash triggered by the pandemic has been brutal for the oil industry across the U.S. but nowhere worse than North Dakota, where the explosive growth of the Bakken was the first big oil field to emerge during the shale boom. Now, as North Dakota emerges from the downturn, the oil industry’s prospects seem far less certain. Investment has dried up, political support is waning, and the future of a key pipeline to move oil from the state hangs in the balance.

North Dakota entered 2020 at record production levels. Its output was second only to Texas as it pumped out almost 1.5 million barrels of oil a day, 12% of the nation’s total. Then the pandemic crashed demand. North Dakota operators shut almost a quarter of their wells and output slid 40%. “Industry was essentially brought to a standstill in the first 45 days of COVID,” said Ron Ness, North Dakota Petroleum Council president.

What money there is now has tended to be directed toward the Permian Basin of Texas and New Mexico, seen by a growing number of companies as having the best potential. Meanwhile, President-elect Joe Biden has vowed to ban new drilling on federal lands — on which one-third of North Dakota’s well pads sit. Things may get worse. The future of the Dakota Access Pipeline, the main route for oil exiting the state, is at risk. It was almost shut down by a federal judge this year after he found the Trump administration had rushed through a key environmental permit. Its closure, sought by activists and Indigenous groups, would force much of the state’s oil exports into expensive rail cars.

Maritime analyst says there are too many oil tankers

(The Maritime Executive; Dec. 28) - The outlook for the global crude oil tanker market remains difficult for the near term, according to a new analysis from maritime research consultancy Drewry. In a year-end analysis, they point to uncertain demand for oil combined with overcapacity and the industry's failure to take steps to address the glut of vessels. In its analysis, Drewry points to the continued lack of demolitions and efforts by shipowners to reduce the overcapacity among crude oil tankers.

Despite the sharp decline in vessel earnings in the second half of 2020, Drewry points out that only one very large crude carrier (VLCC) has been scrapped since the beginning of 2019. At the same time, 104 new VLCCs have entered the market. Floating oil storage has also declined in recent months, returning more vessels to the trade. While 74 VLCCs are still acting as floating storage, the decline has returned other tankers to the market and more are likely to follow as oil stockpiles are drawn down.

Despite the recent increase in oil prices past \$50 a barrel, Drewry predicts that "global oil demand is unlikely to return to 2019 levels before 2022." Based on current market conditions, Drewry suggests that a recovery in the tanker market may be tied to more vessel demolitions.

Opponents sue to block \$2.5 billion oil line in Minnesota

(The Associated Press; Dec. 28) - Opponents of a pipeline that crosses three states have asked a federal court to halt construction in Minnesota, alleging that the U.S. Army Corps of Engineers failed to address several environmental issues when it approved a water-quality permit. Two Minnesota Ojibwe bands and two environmental groups filed a lawsuit in U.S. District Court for the District of Columbia on Dec. 24, asking for a preliminary injunction to stop work on the Enbridge Energy Line 3 pipeline that began early this month across northern Minnesota and is projected to cost about \$2.5 billion.

Line 3 starts in Alberta and clips a corner of North Dakota before crossing northern Minnesota on its way to Enbridge's terminal in Superior, Wisconsin. The 337-mile line in Minnesota is the last step in replacing the deteriorating pipeline that was built in the 1960s. The complaint said the Army Corps decision to issue the permit authorizing the pipeline violates multiple federal laws and treaties and is causing irreparable harm.

The suit was filed by the Red Lake Band of Chippewa, the White Earth Band of Ojibwe, the Sierra Club and the group Honor the Earth. The Army on Nov. 23 issued its permit for the discharge of dredged and filled material into U.S. waters during the pipeline construction. The permit was the last major approval Calgary-based Enbridge needed to begin construction in Minnesota, after a contentious process that lasted several years.

Opponents worry about safe LNG rail transport to N.J. terminal

(National Public Radio; Dec. 29) - In an effort to boost liquefied natural gas exports, the Trump administration has reversed longstanding federal policy and approved transport of LNG by rail anywhere in the country. Opposition has come from Hollywood stars, state attorneys general and local residents who worry about the dangers. But plans are moving ahead for a New Jersey project that calls for one of the longest such transport routes in the country: 200 miles through densely populated areas of the East Coast.

The gas from Pennsylvania's Marcellus Shale would first be sent by pipeline to a new liquefaction plant in the rural northeast part of the state. The part of the plan that scares a lot of people is the next step — transporting the LNG by truck or rail down the I-95 corridor to a planned export terminal along the Delaware River in New Jersey, proposed by Delaware River Partners, a subsidiary of New Fortress Energy. Pipelines are the more common way to move gas long distances, but battles over them have delayed or even scrapped some projects. Trucks are also allowed to transport LNG.

But using rail cars in densely populated areas had been limited until the new rule took effect in August. Ray Mentzer, a chemical engineer at Purdue University who spent his career working on LNG for ExxonMobil, said the specialized tanks that carry hydrocarbons have a good safety record. But moving LNG through densely populated areas increases the risk if there is a leak. "It's not flammable until it's vaporized, but it's going to be vaporized pretty darn quickly and then it's going to seek an ignition source," he said. "Believe me, it will find an ignition source pretty darn readily."

Renewable natural gas business grows from farm waste

(The Wall Street Journal; Dec. 28) - Missouri hardly produces any natural gas, unless you count the hogs. The methane wafting from the manure ponds at swine farms is increasingly funneled into pipelines and delivered to power plants and homes, where it is burned alongside shale gas for heat, hot showers and cooking. Smithfield Foods, the country's largest pork producer, expects to be selling gas from all of its Missouri farming operations by summer. Most of its farms already feed methane into the gas grid.

Once covers are stretched across the 4-acre lagoons at the rest of its farms and then connected to equipment that removes carbon dioxide and impurities from the fumes, Smithfield expects to supply enough gas in Missouri to fuel about 10,000 houses. "We've been looking at how to make energy out of manure for a couple decades," said Kraig Westerbeek, who leads Smithfield's renewable energy business. "We've had some failures, but these projects show that you can actually get it done."

It's becoming a big business to harness the methane seeping from heaps of organic waste. So-called renewable gas can be produced in commercial quantities at swine and dairy farms, landfills, wastewater-treatment plants, from slaughterhouse sludge and

spoiled food. Burning it to generate electricity or heat produces no less carbon dioxide than shale gas, but methane is a more potent greenhouse gas than carbon dioxide. Diverting methane from the air and into the energy grid is treated as reducing emissions and rewarded with low-carbon and renewable-fuel credits, which can be traded for cash.

Analysts and utilities believe renewable gas could reach 10% to 30% of total supply by 2040, up from 1% today. Dominion Energy, a big utility striving for carbon neutrality by 2050, plans to put \$2 billion in biogas. It has a \$200 million pact with dairy farms and is pursuing \$500 million worth with Smithfield separate from the producer's Missouri sites.

China's LNG imports up 10.6% for first 11 months of 2020

(S&P Global Platts; Dec. 28) - China imported 6.61 million tonnes of liquefied natural gas in November, up 31.6% month on month and 1.6% higher year on year on rising domestic demand despite higher prices, according to data released Dec. 26 by the country's General Administration of Customs. Pipeline gas imports were up 2.3% in November. Colder weather drove higher consumption by households and demand from industrial users rose due to more orders in the Christmas season, market sources said.

The average price of LNG imported by China in November, comprising both term and spot cargoes, was about \$6.28 per million Btu on a delivered basis, up 15.3% from \$5.44 a month earlier, according to S&P Global Platts calculations based on customs data. Between January and November, China imported 59.54 million tonnes of LNG, up 10.6% year on year. This was marginally slower than a 13.4% growth seen in the same period last year. LNG accounted for 65.8% of the country's total gas imports in the first 11 months of 2020, compared with 61.8% in January-November 2019, Platts reported.

China's market reforms boost private LNG import terminals

(Asia Times Financial; Dec. 23) - Construction has started on what will be China's largest privately held liquefied natural gas import terminal, further loosening the stranglehold of the country's majors. The country's natural gas sector has morphed from a tightly held monopoly by the so-called Big Three (CNPC, Sinopec and CNOOC) to one now with increasing market liberalization and open competition — but it has taken years and has been hard fought by independent private and state-run energy players.

That a private company can build its own LNG terminal shows how far China's gas sector has come. The latest salvo by the independents came Dec. 28. Huaying Natural Gas, a private company, began work on its own terminal in the port city of Chaozhou in Guangdong, a coastal province in southeast China, near Hong Kong. With a capacity of 6 million tonnes per year, it will be the country's largest privately held terminal to date.

Until recently, energy players faced tough negotiations from the Big Three for third-party access to LNG facilities, leaving them at the mercy of these state-run behemoths. However, by mid-2018 the situation started to change when independent gas distributor ENN opened China's first privately run LNG import facility, in Zhejiang province. Beijing had finally opened up the sector by not only granting third-party access to the Big Three's terminals, but by liberalizing gas pricing and even promoting LNG trading hubs.

Beijing energy planners were under pressure to liberalize gas and LNG markets given the country's seemingly insatiable gas consumption. For 2020, LNG imports by non-state companies in China are projected to increase some 40% year-on-year, reaching 11 million tonnes, and amounting for more than 17% of the country's total LNG purchases, said Chen Zhu, managing director of Beijing-based consultancy SIA Energy.

Power shortages make it harder for China to cut back on coal

(Reuters; Dec. 24) - China's harsh winter and stunning manufacturing recovery this year have pushed up electricity demand across the country's industrial belt, complicating Beijing's drive to cut businesses' power usage and their reliance on polluting coal-fired energy. The surge in demand also comes as the cold hampers the ability of renewable energy to fill the gap left by a severe coal shortage, raising doubts about the reliability of cleaner sources to power the world's second-largest economy during critical periods.

In Zhejiang province, an economic powerhouse in eastern China, cities including Yiwu and Wenzhou told factories to scale back production and government departments were told not to turn on heat unless temperatures fall below 37 Fahrenheit. The southern provinces of Hunan and Jiangxi also imposed curbs on factory and residential power use. Across China, November power consumption rose 9% from a year earlier with industrial demand up 10%, fueled by a resurgent economy and a 21% increase in exports to meet COVID-driven demand for electronics, protective gear and other goods.

Coal supplies, meanwhile, are tight despite record domestic output in November as the strong economic recovery sucks up power. To address power shortages, Beijing has urged coal miners to ramp up output and energy firms to diversify gas sources. It has also allowed customs to clear imported coal that had built up at ports during the summer due to unofficial import quotas aimed at supporting local producers. Coal still dominates China's power generation, accounting for nearly 60%. Despite longtime efforts to switch to cleaner energy, the power grid is largely reliant on coal to meet base-load demand.

Sinopec pledges to boost LNG imports and domestic gas production

(Reuters; Dec. 29) - Sinopec pledged Dec. 29 to maximize domestic gas production and raise imports of liquefied natural gas to record rates as a cold spell hitting much of China this week boosts demand for the winter heating fuel. China's economic planner, the National Development and Reform Commission, on Dec. 28 urged companies to step up imports of gas and thermal coal as temperatures are set to fall sharply.

Sinopec, already Asia's top spot importer of LNG, said its LNG imports into receiving terminals in north China's Tianjin and east China's Qingdao will reach new highs in January, without giving a volume. The company will also increase domestic gas production by an additional 35 million cubic feet a day by the end of January by accelerating the drilling of new development wells. It's also maximizing extracting gas from its underground storage in central and east China, the company said.

PetroChina looks to double shale gas output by 2025

(Reuters; Dec. 29) - PetroChina, Asia's largest oil and gas producer, aims to more than double annual shale gas output from its operations in the Sichuan Basin to more than 750 billion cubic feet by 2025 from this year's level, China News Service reported on Dec. 29. That will surpass a target set by Sinopec, which led China's shale gas development with the first commercial find at Fuling, also in the Sichuan Basin, and which aims to nearly double its shale gas output to 460 bcf in 2025.

Shale gas operations managed by PetroChina's Southwest Oil and Gas Division will top 350 bcf this year, making the company China's single largest shale gas producer, the news agency said. PetroChina sunk more than 240 wells this year in the sprawling blocks of Sichuan, resulting in daily shale gas output 40% higher than at the beginning of 2020, the report said. PetroChina started appraising shale gas blocks in the Sichuan basin in 2006 and made its first major discovery with the Wei-201 well in 2010.

LNG traders quote high spot prices to Pakistan amid tight supply

(Reuters; Dec. 29) - SOCAR Trading and ENOC Singapore have offered the lowest prices to supply two liquefied natural gas cargoes to Pakistan LNG for delivery in February, according to a tender document published Dec. 29. SOCAR offered a cargo at 23.4331% of the Brent crude oil futures price, while ENOC offered 20.8483%, according to the document on the Pakistan LNG website. The company is a government subsidiary that procures LNG from the international market. The prices are about double the oil-price-linked LNG bids quoted earlier this year at the global market's low point.

Global LNG supply has been tight amid production issues and that has pushed spot prices to a near two-year high and freight rates for LNG tankers to the highest in more than a year. Pakistan is yet to decide on whether it will award the tenders, said an official at the country's petroleum ministry. Earlier this month Pakistan issued a tender after three out of six cargoes it had sought in an earlier tender for January received no bids, but the country did not award the bids given the high rates. Pakistan has long-term purchase deals in place, but regularly taps the spot market as demand continues to rise.

U.K. continues to reduce carbon intensity in power generation

(Bloomberg; Dec. 29) - Britain's power generation industry is headed for its greenest year yet as more renewable capacity is added and coal plants are needed less often. The carbon intensity — a measure of the environmental impact of generating electricity — has dropped 60% in the U.K. in the six years to 2019 and is on track to reach another low this year, according to data from National Grid.

The figures show the success of government efforts to pare back emissions and push coal plants off the grid, part of a broader plan to zero out net fossil-fuel pollution by the middle of the century. With electricity demand set to double by 2050, lawmakers need to make sure there's enough clean sources of power to supply the grid as environmental rules tighten. U.K. wind generation hit a new record last week as the nation aims to triple its offshore wind capacity in the next nine years.

The surge in renewables comes at the same time that fossil fuels, coal in particular, have disappeared from the U.K. energy mix. This year saw the longest period without coal in power since the Industrial Revolution. The fuel will be totally off the power system by 2025 at the latest.

Big changes for Singapore as world transitions to cleaner energy

(S&P Global Platts; Dec. 29) - Singapore was on the forefront of oil's emergence in Asia more than a century ago and has grown to become a global giant in petroleum trade, but now it's tasked with finding a new path as the clean energy transition accelerates worldwide. Shell, which started out as M. Samuel & Co. and built the first fuel depot in Singapore in the 1890s, has said it will shut half of its refining capacity on Singapore's Pulau Bukom Island, signaling the start of one era and the beginning of another.

Shell said Pulau Bukom will become one of its roughly six energy and chemicals parks and part of a "pivot from a crude-oil, fuels-based product slate toward new low-carbon value chains." Repurposing the facility will involve significant changes in refinery configuration, increased investment, and studies of products resilient to the energy

transition such as biofuels, specialties like bitumen, alternative feedstocks, and renewable raw materials such as recycled chemicals, Shell said.

In 1961, Shell built Singapore's first refinery on Pulau Bukom, paving the way for the emergence of Singapore as the "Houston of the East." Over the years, Singapore's oil refiners, which included ExxonMobil, BP, and PetroChina, have processed everything from U.S. shale to crudes from China, Australia, Malaysia, North Sea, West Africa, and South America. The challenge now is much more than just decarbonization. Singapore has one of the world's largest refining and petrochemical complexes, the world's largest bunkering port, Asia's largest oil trading hub and two of the largest drilling rig builders.

Losing bet on oil trading pushed banks to pull back on financing

(Bloomberg; Dec. 29) - In January, as a mysterious illness ripped through the Chinese city of Wuhan, global oil prices plunged. Two thousand miles away in Singapore, one of the most powerful men in the world of commodities trading, Lim Oon Kuin, quietly added to his vast stockpiles of fuel — betting that China would successfully control the spread of the new disease. That gamble soured quickly. While China did curb the coronavirus at home, the pandemic that followed brought crude oil prices tumbling as much as 70%.

Banks tried to recover loans from Lim's company, Hin Leong Trading, triggering one of the biggest scandals in the oil industry this century. Lim's empire collapsed, owing \$3.5 billion to 23 banks, and the fallout from the debacle is reverberating into 2021, shaking out large tracts of the vast and often opaque \$4 trillion global oil-trading industry. The losers are likely to be the hundreds of small trading firms, many of them employing only a handful of people, who will find it expensive, if not impossible, to meet the increased demands for information from banks that have become wary of lending them money.

Gaining from the crisis are the big global traders, such as Trafigura and Vitol, which retain the confidence of finance companies and are better able to absorb the costs of more oversight. Banks in the major oil trading hub of Singapore issued new guidelines for financing. Netherlands-based ABN Amro Bank has said it will pull out of commodity trade finance altogether. Others, including France's BNP Paribas, said they are scaling back or reviewing their businesses. More than 20 traders and bankers told Bloomberg News that financing is tightening with the contraction likely to continue next year.

BP plugs offshore Australia well after finding no oil or gas

(Reuters; Dec. 29) - BP said on Dec. 29 it has found no oil or gas at its Ironbark-1 exploration well off Western Australia, in what had been seen as a multi-trillion-cubic-foot gas prospect. The result marked a big disappointment for BP's partners in the

prospect, which had been seen as a potential supplier to the 31-year-old North West Shelf liquefied natural gas plant, where BP is a co-owner, within five to 10 years.

BP said the well, drilled to a depth of 18,400 feet, will be plugged and abandoned, but had no further comment. “Bugger. A very disappointing result for us all,” New Zealand Oil and Gas (NZOG) Chief Executive Andrew Jefferies said. “Ironbark was a world scale prospect in a highly prospective address, and it needed drilling. We got an answer, but it was not the one we wanted.” NZOG and Cue Energy Resources — both partners in the venture — said it would take several months to understand the implications for the play.