

# Oil and Gas News Briefs

## Compiled by Larry Persily

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#### **January may be too soon for OPEC+ to increase production**

(Bloomberg; Oct. 7) - The world is awash with oil. Yet, in less than 12 weeks, OPEC+ is set to pour even more barrels into the glut. For many in the oil market, it's the wrong move. Increasingly, some inside the OPEC+ coalition are also wondering if the group should reconsider. "We do not need the extra oil," said Marco Dunand, co-founder of Mercuria Energy Group, one of the world's largest commodity trading houses.

When OPEC+ cut its production in May as the pandemic ravaged demand, it announced a three-phase plan. First, the deep cut: Nearly 10 million barrels a day were taken out. Then an easing of the cuts to about 8 million barrels a day. Phase 3 is due to start in January, tapering the cuts to 6 million barrels. But now OPEC+ is debating how to proceed. Inside the cartel, the mood is turning somber. The demand recovery is slower than expected, and inventories aren't shrinking as quickly as OPEC+ anticipated just a couple of months ago. Oil prices, too, are lower than many members had hoped.

"The oil market fundamentals look soft," said Martijn Rats, oil analyst at Morgan Stanley. Saudi Arabia and Russia face a difficult task. With too much oil around, some traders believe OPEC may opt to delay, or spread the output hike over a number of months, trying to fine-tune the increase with seasonal consumption. In private, some OPEC+ delegates debate whether the tapering should be postponed, at least a few months into 2021. A short delay, perhaps of two or three months, is a "realistic" possibility, one OPEC delegate said. Much could change before the group gathers on Nov. 30-Dec. 1.

#### **Saudis look to boost oil output before world shifts to cleaner energy**

(Reuters; Oct. 6) - The slump in demand for crude during the coronavirus pandemic has forced oil companies to contemplate the possibility that the market has peaked and the time for a global energy transition has come. But Saudi Aramco plans to boost its output capacity so it can pump as much of its vast oil reserves as demand picks up — before a shift to cleaner energy makes oil all but worthless, industry sources and analysts said.

With almost 20% of the world's proven reserves and production costs of just \$4 a barrel, Aramco believes it can undercut competitors and carry on making money even when lower oil prices make it unprofitable for rivals, the sources said. Riyadh now plans to

follow through on its apparent threat in March during an oil-price war with Russia to raise its capacity to 13 million barrels a day from 12 million, officials and sources said.

Aramco's plan contrasts with rivals such as BP and Shell that plan to curb spending on oil so they can invest in renewable and green energy to prepare for a low-carbon world. With a renewed focus on oil, Aramco is also revising ambitious downstream expansion plans and now aims to grab assets in established projects in key markets such as India and China, rather than building expensive mega plants from scratch, the sources said.

“We expect oil demand growth to continue in the long term, driven by rising populations and economic growth. Fuels and petrochemicals will support demand growth. ... Speculation about an imminent peak in oil demand is simply not consistent with the realities of oil consumption,” Aramco said. The possibility that demand for crude has peaked makes it more pressing for the top oil exporter to exploit its reserves while it still can generate cash to fund Saudi Arabia’s economic reforms, sources said.

### **Goldman Sachs says Saudis assume \$50 oil the next three years**

(Bloomberg; Oct. 5) - Saudi Arabia’s Finance Ministry is budgeting for oil prices to be around \$50 a barrel for the next three years, according to a Goldman Sachs analysis of the kingdom’s fiscal plans. “Using our own estimates for the breakdown of government revenues, we calculate the numbers presented in the budget statement are based on an average oil price of around \$50 a barrel between 2020 and 2023,” said Farouk Soussa, a London-based analyst at Goldman, referring to a Saudi pre-budget statement.

While oil at \$50 would represent a 25% increase from current prices, it would still be far below the pre-pandemic level of around \$65 and less than Saudi Arabia needs to balance its budget. Goldman’s calculations are roughly in line with those of Cairo-based investment bank EFG Hermes, which has said Saudi Arabia is basing next year’s budget on an oil price of \$50 to \$55. Goldman is itself more bullish, forecasting that Brent will climb to \$65 by the end of 2021.

Saudi officials expect the country’s fiscal deficit to narrow to 5.1% of gross domestic product in 2021 from 12% this year as they cut spending, according to last week’s statement. The kingdom tends to take a relatively conservative view of crude prices in drawing up its budget and doesn’t divulge its assumptions, leaving analysts to estimate them from other projections. Saudi Arabia would need oil to trade at \$66 to balance its budget in 2021, according to estimates from the International Monetary Fund.

## **Chevron passes Exxon as largest U.S. oil company by market value**

(Bloomberg; Oct. 7) - Chevron has passed ExxonMobil as the largest oil company in America by market value, the first time the giant has been dethroned since it began as Standard Oil more than a century ago. The reordering says more about Exxon than Chevron. The company has been struggling to generate enough cash to pay for capital expenditures, leaving it reliant on debt and putting pressure on its \$15 billion-a-year dividend. It pursued a series of expensive projects that promised growth after years of stagnating production. Those became a drag on its cash flow when the pandemic hit.

Chevron has meanwhile fared relatively well, having emerged with the strongest balance sheet among its Big Oil peers. Even so, both Exxon and Chevron are receding into the rear-view mirror of NextEra Energy. The world's biggest producer of wind and solar power has now surpassed the oil majors, leading a spectacular rally in power stocks as much of the world shuns fossil fuels to fight climate change. NextEra ended Oct. 7 with a market capitalization of \$145.5 billion, topping Chevron's \$142 billion and Exxon's \$141.6 billion.

Exxon's shares have fallen more than 50% this year, and its second-quarter loss was its worst of the modern era. Meanwhile, NextEra has become the world's most valuable utility, largely by betting big on renewables, especially wind. Its shares have surged more than 20% this year and it plans to grow its renewables portfolio to 30 gigawatts, enough for 22.5 million homes. "People believe that renewable energy is a growth story and that oil and gas is a declining story," said Jigar Shah, of green financier Generate.

## **Yergin calls oil 'the primary fuel that makes the world go round'**

(Natural Gas Intelligence; Oct. 2) - The successful combination of hydraulic fracturing with horizontal drilling to squeeze oil and gas from shale has vaulted the U.S. to a global powerhouse, but the positive impacts have been far greater, said Daniel Yergin. He is in the spotlight with his newest book, "The New Map: Energy, Climate, and the Clash of Nations." Fans came to know the energy chronicler from "The Prize: The Epic Quest for Oil, Money and Power," which won the Pulitzer Prize for general nonfiction in 1992.

Regardless of the positive impacts, the role fossil fuels play in climate change has challenged the world's economy and is "accelerating a second energy revolution in search of a low-carbon future," Yergin said. But the oil and gas industry is not dying a slow death, he said. "Oil will maintain a preeminent position as a global commodity, still the primary fuel that makes the world go round." Continued use of fossil fuels comes down to "the investment already made, lead times for new investment and innovation, supply chains" and oil's "central role in transportation (and) the need for plastics."

The world may appear to be on a fast track to ditch oil and gas, but it's not going to happen anytime soon, Yergin said. Huge commitments to transition to renewables have

been made by the European majors, but it's doubtful that U.S. majors will be under as much pressure to reduce oil and gas output. "European majors are under enormous pressure from governments, from some investors. And I think they're responding to the activists," Yergin said. "The impact of the Paris climate agreement is much stronger in Europe than in the U.S. ... they're adjusting to the reality of the world in which they live."

### **Energy analyst says Arctic oil projects 'economically unviable'**

(Agence France-Presse; Oct. 4) - The coronavirus pandemic that has slammed oil demand and prices is forcing energy majors to cut back on exploration, even if finding new deposits has been essential to their existence. And while the sector is increasingly diversifying into greener energies, its core business remains oil and gas — for now.

"Questions abound over whether it is still profitable to look for oil given subdued demand growth prospects and a low-price environment," said Stephen Brennock, an analyst at oil brokers PVM. "The answer seems not, judging by the recent spate of massive hydrocarbon asset write-downs. Set against this backdrop, I don't expect a rebound in drilling in the medium term. Instead, oil majors will be forced to beef up their green energy portfolios in order to survive."

"Drilling programs will be hampered in the near-term, in particular in U.S. shale areas but also elsewhere, because of immediate cost-cutting measures," said JBC Energy analyst Raphaela Hein. However, "we think that they will continue to look for new fields — maybe to a slightly lesser extent ... and keep production within their long-term plans. Of course, this will contribute to ensuring their survival." However, Hein said that arctic projects appear to be "economically unviable." This despite that the vast area is forecast to hold 13% of the world's oil reserves and 30% of its undiscovered natural gas.

### **Most oil and gas, chemical industry job losses will last another year**

(Bloomberg; Oct. 5) - Almost three-quarters of the pandemic-driven jobs losses in the U.S. petroleum and chemical sectors may not come back before the end of next year, according to Deloitte. The collapse in oil demand and prices spurred the fastest rate of oil- and chemical-industry layoffs in history, with about 107,000 jobs eliminated between March and August, Deloitte said in a study released Oct. 5.

The number is probably even higher when furloughs and other measures are taken into account, said Duane Dickson, vice chairman and U.S. oil, gas and chemicals leader for Deloitte. Oil explorers, gas drillers, frackers, refiners, and equipment makers have shrunk their workforces to cope with the plunge in demand for the products they sell.

Schlumberger, Halliburton, and Marathon Petroleum — some of the biggest operators in their fields — are among the companies casting thousands of people out of work.

Oil field services has been hit particularly hard, as capital expenditure on things like drilling new wells has been slashed. The sector added 1,400 jobs last month — the first increase since the pandemic emerged — but that paled in comparison to the 107,000 eliminated positions, according to the Petroleum Equipment & Services Association. Texas bore the brunt of those cuts with 59,700 oil field jobs wiped out. Deloitte is forecasting a 30% recovery of lost jobs by the end of 2021, assuming oil averages about \$45 a barrel and gas hovers around \$2.50 per million Btu.

### **Oil exporters will be competing for less demand in China**

(Reuters; Oct. 5) - China's five-month oil party was still going strong in September, but is winding down in October, leaving the industry to ponder just how big the hangover is going to be. China's September imports are estimated by Refinitiv Oil Research at 11.71 million barrels per day, the fifth straight month that arrivals have exceeded 11 million. It's no secret that the massive flows of crude to China came as Chinese refiners went on a buying spree during the price war in April between Saudi Arabia and Russia.

While the price war didn't persist, it did last long enough to give refiners an opportunity to stock up with bargain-basement crude. It's now likely that from November onwards China's crude imports will return to what could be described as more "normal" levels, although it's also possible they may be softer than usual given high inventory levels. With China slowing crude purchases, the make-up of its suppliers will become more important in determining the outlook for the various crude price benchmarks.

In theory, China's appetite for light, sweet crudes such as West Texas Intermediate and Brent should be lower than for medium and heavy grades given the configuration of many of its refineries. This favors Middle East producers such as Saudi Arabia, Kuwait, Iraq, and the United Arab Emirates. But the main issue for crude exporters is that they are likely to be chasing a share of smaller demand from China, at a time when imports by the other top consumers in Asia, such as India and Japan, remain constrained by the ongoing economic weakness caused by efforts to contain the coronavirus pandemic.

### **Texas pipeline operators cut tariffs amid weak market**

(Bloomberg; Oct. 5) - Oil pipeline operators are slashing fees to encourage customers in Texas to keep using their networks to ship barrels to the Gulf Coast as the pandemic wreaks havoc on profits. Kinder Morgan is offering discounts of about 50% on the Eagle Ford pipeline for some existing customers, according to people familiar with the

matter. Magellan Midstream Partners said it is negotiating lower tariffs on the Permian's BridgeTex system for some users whose contracts are up for renewal at year-end.

The discounts reflect efforts by pipeline companies to combat sluggish oil consumption and a drilling slowdown in prolific regions such as the Permian Basin after they expanded capacity in recent years. Last month Enterprise Products Partners shelved plans for a major crude pipeline that would have added 450,000 barrels a day of capacity to a system that carries oil from the Permian to the Gulf Coast.

The industry responded with similar discounts during previous slowdowns such as the 2014-2015 downturn, said Jon Sudduth, senior North American crude analyst at Energy Aspects in Houston. This time the lack of demand for pipeline capacity has reduced the premium for oil delivered to export hubs on the Gulf Coast to under \$1 a barrel from around \$3 a barrel at the start of the year. That's not enough to cover transport costs for most Permian pipelines — prompting some pipeline companies to offer discounts.

### **U.S. refineries may sell into Canada's renewable diesel market**

(Reuters; Oct. 3) - U.S. oil refineries are moving aggressively to produce renewable diesel, partly to cash in on Canada's greener fuel standard before Canadian refiners modify their own plants. Canadian Prime Minister Justin Trudeau's government intends to present its Clean Fuel Standard this year to cut 30 million tonnes of emissions by 2030. Renewable diesel, made with spent cooking oil, canola oil, or animal fats, can be used in conventional diesel engines in high concentrations or without blending.

So far, Canadian companies have been slow in preparing to make the fuel with only three projects announced, said Ian Thomson, president of the Advanced Biofuels Canada industry group. At least five U.S. refiners have announced plans to produce renewable diesel or said they are considering it, including Phillips 66. "This is Canada's to lose," Thomson said. "If Canada's refiners want to get left out of the game, they will dig their heels in and oppose the standard. Meanwhile, the Americans will build."

Renewable diesel is a niche market, supplying just 0.5% of the global diesel market's 430 billion gallons per year, according to investment bank Morgan Stanley. Greenhouse gas emissions from renewable diesel and traditional biodiesel are typically 50% to 80% lower than conventional diesel. U.S. states such as Colorado and Washington are moving toward such standards, and along with Canada's fuel standard a sufficient market is developing, said Tom Creery, an executive at refiner HollyFrontier.

## **Korean shipyard will build storage barges for Russian LNG exports**

(The Barents Observer; Norway; Oct. 4) – South Korea's Daewoo Shipbuilding & Marine Engineering has signed a deal worth \$748.2 million to build two barges for use at transshipment points for Russian Arctic LNG. When finished, the two storage barges, each with capacity to hold enough liquefied natural gas to fill two standard-size tankers, will be towed to LNG transshipment terminal sites in Vidyaevo near Murmansk near the Norwegian border and to Kamchatka in Russia's Far East.

The barges will become key parts of the logistics scheme developed by gas producer and LNG exporter Novatek as part its massive building of LNG projects in the Arctic. The terminals will serve fleets of ice-class tankers shuttling from LNG plants on the Yamal and Gydan peninsulas. Conventional tankers will pick up the LNG from the transshipment points and carry it to markets in Europe and Asia. Both terminals are to be ready for operations by the end of year 2022.

The deal with the yard includes an option to build two more barges. The transshipment terminals will significantly lower the transport costs for Russian LNG exports. Currently, ice-class tankers deliver the LNG directly to customers. With the new terminals, conventional tankers that are far cheaper to operate will take over much of the work.

## **Shell looks to LNG as bridge fuel to hydrogen for maritime industry**

(S&P Global Platts; Oct. 2) - Shell has revealed plans to back hydrogen fuel cells for the maritime shipping industry's 2050 decarbonization goals, while tagging liquefied natural gas as the bridge fuel between hydrogen and conventional oil-based bunker fuels. "We believe liquid hydrogen to be advantaged over other potential zero-emissions fuels for shipping, therefore giving a higher likelihood of success," the company said in its latest report, "Decarbonising Shipping: Setting Shell's Course."

The International Maritime Organization has set a goal to cut the industry's greenhouse gas emissions by at least 50% by 2050. Shell has studied liquefied hydrogen, which requires "very high capex investment" and would probably need five to 10 years of development before commercial use, said Marc Rechter, CEO of hydrogen project developer Resilient Group. "It needs significant volumes in infrastructure both on the liquefaction side and gasification side, as well as the shipping itself," Rechter said. "2030 is probably a good target seeing a larger-scale liquefied hydrogen movement."

Despite the properties of hydrogen being well understood, Shell said there is "still much work to do." While global availability and hydrogen infrastructure is being developed, "LNG could be used in fuel cells — the only fuel available today to help advance this critical technology. In this way, shipping could lay the foundations for future fuels while securing immediate emissions reductions," the company said. There are more than 75

ports with LNG refueling capabilities worldwide. Shell aims to double its own LNG refueling network by the mid-2020s, the company said.

### **Alberta wants to build hydrogen industry; details will come later**

(Reuters; Oct. 6) - Alberta will look to use its plentiful natural gas reserves to become an exporter of hydrogen, a clean-burning fuel, by 2040, Premier Jason Kenney said Oct. 6. The pandemic has hit Alberta's oil industry hard as travel restrictions crushed demand for fuel. The province's struggles date back years, however, as the oil sands' high emissions made it a target for environmental activists and have led to some investors, banks and insurers cutting ties with the industry.

"The potential for hydrogen is huge," Kenney said, adding that Alberta could potentially produce among the lowest-cost hydrogen in the world. "Putting Alberta on the global hydrogen map now as this energy source is beginning to gain prominence, will be crucial for us to be at the forefront of future changes in energy." Alberta will announce specific actions to build a hydrogen industry later, a government spokesman said.

Hydrogen would help diversify Alberta's economy, although a provincial minister told Reuters last month that it also offered a means to expand oil and gas production. The province wants to become a bigger producer of petrochemicals and a hub for recycling plastic waste by 2030 as well, Kenney said. Alberta will accept applications this autumn for government grants to build petrochemical plants.

### **Dockside Tacoma LNG plant set for second-quarter 2021 opening**

(Riviera Maritime Media; Oct. 5) - A deep-water, major shipping hub in the Port of Tacoma will soon be home to a new liquefied natural gas production and storage facility capable of refueling marine vessels. Jointly owned by utility Puget Sound Energy (PSE) and its commercial sister company Puget LNG, the \$310 million Tacoma LNG project is scheduled to start operations in the second quarter of 2021.

It will be the first LNG bunkering terminal on the West Coast of North America. In addition to serving the maritime industry, it will provide gas to meet peak demand needs of PSE utility customers, handling both users simultaneously. "This is particularly important for our key customer, TOTE Maritime, and their need to have their two Alaska-bound ships bunkered weekly with LNG," said Puget LNG business development manager Blake Littauer.

Instead of a traditional bunkering barge to deliver fuel to ships, the Tacoma LNG facility will fill ships directly from the onshore storage tank via an 800-foot buried pipeline to a dedicated dockside bunkering arm to load the fuel aboard ships. The tunnel that



houses the pipeline runs along rights-of-way beneath TOTE's facility, including crossing under a public street and two railroad tracks. The storage tank will hold up to 8 million gallons of LNG. The liquefaction plant is designed to produce up to 500,000 gallons a day.

### **Singapore expects growth in LNG as marine fuel**

(Reuters; Oct. 6) - Singapore's annual liquefied natural gas bunkering capacity is expected to hit 1 million tonnes by 2021, as the world's largest marine refueling hub transitions toward cleaner shipping fuels, a senior minister of state said Oct. 6. The push is part of the International Maritime Organization's aim to halve the sector's greenhouse gas emissions by 2050 from 2008 levels.

"As the maritime community continues the search for low- or zero-carbon fuels to meet the IMO's 2050 goal, LNG is a viable transitional fuel to mitigate CO<sub>2</sub> (carbon dioxide) emissions from ships," said Chee Hong Tat, Singapore's senior minister of state for the Ministry of Transport. To expand its capacity, the port will advertise for additional LNG supplier licenses, he said at the Singapore International Bunkering Conference.

Singapore, the world's largest marine refueling hub with annual sales of about 50 million tonnes of bunker fuels, is the only port globally that implements a licensing regime for bunkering suppliers that deliver fuels directly to ships at the dock or in the harbor.

### **Low-cost LNG provides boost to gas-fueled power in India**

(S&P Global Platts; Oct. 6) - India's natural gas-based power generation this year has climbed to a level not seen in years as record low gas prices help to make it relatively more attractive than coal in certain regions of the country, with analysts expecting the trend to continue for the rest of the year. The substantial change in the near-term demand pattern may give some relief to gas importers that have otherwise witnessed a drop in consumption from other sectors as COVID-19 prompted countrywide shutdowns.

LNG demand for power generation has been robust this year as power plants looked to capitalize on record low LNG prices, helping boost their profit margins at prevailing electricity prices. The Platts West India Marker, which reflects spot LNG prices for cargoes delivered to India, hit a historical low of \$1.763 per million Btu on April 23, S&P Global Platts data showed. A warmer-than-usual winter, additional supply from Australia and the U.S., along with COVID-19 inflicted demand destruction pulled down the average January-October delivered LNG price to \$3.17 from \$5.62 in 2019.

In India, gas-fired generation averaged 6.1 gigawatts during the first three quarters of 2020, an increase of 10% over the same period last year. Generation from coal-based

plants in the same three quarters averaged 106 gigawatts, a decline of 10% year on year. Over a longer period, however, skeptics of India's gas demand in the power sector are pointing to higher spot LNG prices, making gas-based power uneconomical.

### **Japanese power generator plans two new LNG-fueled plants**

(Reuters; Oct. 6) - Japanese power generator JERA said on Oct. 6 it has begun an environmental assessment on building two 650-megawatt liquefied natural gas-fueled power plants at its Chita station in central Japan, and plans to scrap five aging plants. The company has not made a final investment decision, but is considering building the new plants with gross thermal efficiency of about 63% — one of the highest levels anywhere in the world — to help reduce carbon dioxide emissions, a spokesman said.

If they go ahead, the two units would start operations in August and December 2027, respectively, he said. JERA, a thermal power and fuel joint venture between Tokyo Electric Power and Chubu Electric Power, plans to decommission the older plants by March 2027, shutting 3.1 gigawatts capacity in total. JERA, one of the world's biggest LNG buyers, submitted a primary environmental impact consideration document to Japan's industry ministry and local authorities, the first step in the assessment process.

### **Report says BLM royalty rate reduction may not have done much**

(The Hill; Washington, DC; Oct. 6) - It's not clear whether the federal government's moves to reduce fees paid by oil and gas producers for leasing public lands actually prevented any of them from shutting down wells amid the coronavirus pandemic, according to a nonpartisan watchdog. "Royalty relief may have gone to companies that would not have shut down their wells without the relief," the congressional Government Accountability Office said of the Bureau of Land Management program.

"BLM's temporary royalty relief cost the federal government and states in forgone revenues but may not have had the effect of keeping wells operating and preventing the loss of unrecoverable oil and gas resources. The benefits of the temporary royalty relief are unknown," the GAO concluded. Producers pay royalties to the federal government to lease public lands and waters for drilling. The report estimated that royalty reductions cost the government \$4.5 million for May and June. It said BLM cut the royalty rate from a typical 12.5% of production to an average of less than 1% over a 60-day period.

Early guidance from BLM said companies applying for royalty cuts had to show that their leases were "uneconomic at the current royalty rate, but would be economic with a royalty rate reduction." The GAO said royalty cuts were approved "inconsistently" across different BLM offices and said "BLM's temporary policy on royalty relief did not supply sufficient detail to facilitate uniform decision-making among the offices."

## **Irving Oil decides not to buy shuttered East Coast Canada refinery**

(Reuters; Oct. 6) - Canada-based oil refinery operator Irving Oil on Oct. 6 said it has terminated an agreement for the purchase of North Atlantic Refinery Ltd. In May, it had agreed to buy the owner of the idled 135,000-barrel-per-day Come-by-Chance refinery in Newfoundland for an undisclosed price. According to sources, Irving walked away from the purchase agreement shortly before it was set to close mid-October. Irving already owns a refinery in New Brunswick, and the purchase of Come-by-Chance would have made Irving the only owner of East Coast Canada refineries.

“North Atlantic is actively looking for alternate buyer, but the market is very challenging,” said a source. North Atlantic declined to comment. The Come-by-Chance facility was the first North American refinery to close as fuel demand collapsed during the coronavirus pandemic. It supplied major U.S. East Coast harbors including New York and Boston. It has been closed since April. Refining margins have been pressured by lower processing rates due to an oversupply of distillate stocks, which include jet fuel.