

Oil and Gas News Briefs

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Oil companies see profit potential of storing carbon for others

(The Wall Street Journal; April 19) - Oil companies have for decades made money by extracting carbon from the ground. Now they are trying to make money putting it back. Giants such as ExxonMobil and Shell are pushing carbon capture and storage — where carbon is gathered and buried underground — as part of a drive to reduce their own and their customers' emissions. Executives say the service could become a new source of income when the industry is grappling with how to adapt to a lower-carbon economy.

Oil companies have long captured carbon dioxide from their operations, reinjecting it underground mostly to produce more oil. Now they want to retool that skill as a service they can sell to polluting industries like cement and steel, burying their CO₂ indefinitely for a fee. Carbon capture and storage “is becoming a business rather than just a solution,” said Maarten Wetselaar, director of integrated gas, renewables, and energy solutions at Shell. Critics question the environmental benefits and cost of such projects.

Last month Shell, Total, and Equinor launched a joint venture to store carbon in a rock formation thousands of feet beneath the seabed off the coast of Norway. The state-backed project is set to be the first time companies outside the oil industry will be able to pay to have their carbon gathered and stored. Exxon has said it plans to form a new business unit to commercialize carbon capture and storage, forecasting it could become a \$2 trillion market by 2040. Chevron has formed partnerships on storage projects, while BP is co-developing storage projects in the U.K. and Australia.

No agreement on when, but forecasts all see peak oil demand

(Reuters; April 21) - The COVID-19 pandemic has dented oil consumption and brought forward forecasts by energy majors, producers and analysts for when the world's oil demand may peak. The rise of electric vehicles and a shift to renewable energy were already prompting revisions in long-term oil forecasts. While there is no consensus on when demand could peak, the revisions mark a boost in the fight against climate change and could weigh on oil companies' plans to explore and develop new resources.

BP forecasts the lasting effects COVID-19 will knock around 3 million barrels per day off global demand by 2025 and 2 million by 2050 in its central scenario. In its two aggressive scenarios, COVID-19 accelerates the slowdown in oil consumption, leading to calling 2019 the year of peak oil demand. In the third scenario, oil demand peaks at

around 2030. Norwegian oil and gas firm Equinor expects global oil demand to peak by around 2027-2028, two to three years earlier than the company previously forecast.

Analysts at Bernstein Energy say International Monetary Fund projections for GDP growth means global oil demand will return to 2019 levels of about 100 million barrels per day by 2023 before soon plateauing. "Oil demand has not peaked, but it is likely not that far off either ... we expect demand will not peak until sometime in 2025-30." Rystad Energy, Norway's biggest independent energy consultancy, sees oil demand peaking at 101.6 million barrels per day in 2026, two years earlier than its November forecast.

U.S. imports of Russian oil climb to a 10-year high

(S&P Global Platts; April 19) - Russian and U.S. relations have turned frosty again after a new round of U.S. sanctions but when it comes to Moscow's oil, U.S. refiners are more dependent on it than ever. Imports of Russian oil, which consists mainly of fuel oil feedstocks and some crude, recently reached a 10-year high as U.S. refineries continue to ramp up runs as the economy starts to recover from COVID-19. Russian oil imports as a share of U.S. total oil imports hit a record high of 8% in January 2021, according to data from the U.S. Energy Information Administration, up from 4% during 2018.

Mark Finley, a fellow in energy and global oil at Rice University's Baker Institute, said this dynamic is "clearly market driven" and shows how "the interconnectivity of oil markets" can take place even outside of a political context. "What is interesting is that the rise in Russian imports predates COVID-19 and, in fact, the rise in flows coordinates perfectly with the imposition of U.S. sanctions on Venezuela in 2019," he said.

Before sanctions, U.S. refiners were particularly reliant on heavy and sour Venezuelan crude, which in some cases is quite similar to Russian medium sour oil. The trend has gathered pace even as ties between Russia and the U.S. have worsened. U.S. imports of Russian crude and petroleum products were at their highest level in almost a decade last year, and a similar pattern is playing out in 2021. In January, the U.S. imported 648,000 barrels per day of Russian crude and refined products, EIA data shows.

Yergin expects oil at between \$60 and \$75 next year

(CNBC; April 20) - Demand and supply pressures will offset each other in the oil market, and it's reasonable to expect prices in the \$60 to \$75 range in a year's time as countries recover from the coronavirus crisis, said oil expert Dan Yergin. "If we really do have the rest of the world recover, I think it's reasonable to think that oil would be in that range," the vice chairman of IHS Markit said. "That's what the markets are telling us as the U.S. recovers, and China has already recovered," he told CNBC on April 20.

While one trader sees prices potentially spiking to \$100, Yergin's perspective is that a lot of supply is still offline and can meet a surge in demand as global economies recover. "There's still a big surplus of oil that has to be brought back into the market," he said, noting that OPEC and its allies helped to lift prices by cutting production — and that production can be restored. "There'll be offsetting pressures, and more supply would come in and we'd start to see the U.S. coming back into production again."

Yergin acknowledged it's difficult to predict where prices will be, and said Europe's recovery hangs in the balance. "The U.S. is headed into a hyper economic recovery right now, China has a very strong recovery and that will push up demand," he said. "The biggest uncertainty now is actually hanging over Europe and when Europe will be able to get out of its lockdown and start growing again," he said. Europe's COVID vaccine rollout has been slow to progress, and many restrictions remain in place.

Global oil trader says crude could hit \$70-\$75 by end of 2022

(Bloomberg; April 20) - The head of Vitol Group, the world's biggest independent oil trader, expects crude demand to come roaring back this year and next as the world emerges from the pandemic. Demand for crude will increase by 7 million to 8 million barrels a day by the end of 2022, up from current levels, and producers will be stretched to meet that surge, Vitol Chief Executive Officer Russell Hardy said in an interview.

"We believe \$70 to \$75 a barrel is an entirely sensible outcome for the third quarter (2022)," he said, making a rare specific call on oil prices. It's a bullish call for a solid recovery in global petroleum use after the pandemic caused demand for jet fuel, diesel and gasoline to collapse. Vitol handled over 7 million barrels of crude and products a day in 2020, giving it keen insight into fluctuations in global supplies and demand.

Global oil demand remains below pre-pandemic levels, Hardy said, though consumption should continue rebounding by year-end as COVID-19 vaccines continue to be rolled out, lockdowns are lifted and travel for leisure and business resumes. "The gap is slowly closing as economies reopen and Eastern growth takes us higher," Hardy said. Still he cautioned that a recent spike in COVID-19 cases in India and other virus hotspots could derail the recovery. Hardy said more than half of the 1 billion barrels of excess oil stocks squirreled away in response to the market collapse in 2020 have already been drained.

Federal funds could go to clean up abandoned, orphaned wells

(The New Republic; April 16) - On April 15, the U.S. House Subcommittee on Energy and Mineral Resources held a hearing on an issue that's been plaguing communities from West Virginia to New Mexico for decades: abandoned and orphaned oil and gas

wells. An abandoned well is no longer operational but is still owned by a functioning company; an orphaned well is one whose owner has since disappeared, often due to bankruptcy, transferring responsibility for the well to state government.

All too often, nonproducing wells have been left unplugged, and communities and homes now live with the aftereffects of abandoned drilling sites, which leak methane and can contaminate groundwater and aquifers. At the virtual hearing, scientists, ranchers, and legislators all echoed the largest and most fundamental concern with abandoned and orphaned wells: As things stand, neither the U.S. federal government, nor state governments, nor drilling companies have a solid idea of the true scope of the crisis.

As Reuters reported in 2018, citing Environment Protection Agency data, there are at least 3.2 million known abandoned wells in the country, though the EPA believes the total could be three times higher. The current plans touted by the Biden administration and New Mexico Rep. Teresa Leger Fernandez — whose proposed orphaned well cleanup legislation was the reason for the hearing — attempt to deal with the problem.

Both want to allocate billions of dollars toward ongoing cleanup efforts. The legislation introduced by Fernandez would authorize funds for identifying, plugging and reclaiming wells on federal lands; direct the secretary of the Interior Department to create a grant program for tribal nations and states; and create stricter bonding regulations so that drillers will be held accountable up front for the cost of plugging and reclamation.

Report criticizes inadequate monitoring of Gulf of Mexico pipelines

(The Wall Street Journal; April 19) - Federal officials aren't adequately monitoring the integrity of 8,600 miles of active oil and gas pipelines on the Gulf of Mexico seafloor, and for decades have allowed the industry to abandon old pipelines with little oversight, a new report to Congress shows. The Government Accountability Office (GAO) report faults the Interior Department's offshore oil-safety regulator's reliance on surface observations and pressure sensors, rather than subsea inspection, to monitor for leaks.

The agency's own staff acknowledges those techniques could fail to detect a slow discharge from a pipeline over a long period, particularly in deep water where most oil production occurs, the report said. The report urges the regulator, the Bureau of Safety and Environmental Enforcement, to resume work on a long-stalled update to pipeline rules. BSEE currently requires monthly inspections of pipeline routes in the Gulf by helicopter or marine vessel, to look for oil sheens or gas bubbles on the surface.

By comparison, the bureau's Pacific office requires subsea pipeline inspections, in part because of seismic concerns, on its much smaller network of 200 miles of active lines. In interviews with the GAO, bureau officials acknowledged "surface observations are not generally reliable indicators of pipeline leakage," especially in deep water. While BSEE and industry have discussed ways to improve leak-detection systems, the report said a

federal rule for monitoring is needed. The GAO also found that the government allowed the oil industry to leave thousands of miles of decommissioned pipe on the seafloor.

Mining company pays to get rid of its coal assets

(Reuters opinion; April 20) - A global diversified miner paying to exit its coal assets, and a multibillion-dollar move by Qatar as the world's largest producer of liquefied natural gas, have more in common than might be visible at first glance. South32, the Australian commodity producer spun out of BHP Group, is effectively handing over up to \$250 million to Seriti Resources to take South African thermal coal operations off its hands.

While it's not unusual for sellers of mining assets to cover rehabilitation costs, the sizable amount involved shows just how much South32 wanted out of thermal coal — and in effect, just how little the assets are worth. South32 is one of several major coal miners seeking to leave a business that has become increasingly problematic amid action by environmental activists, concern among shareholders, and the withdrawal of financing and insurance for mines viewed as contributing to climate change.

Coal mines, particularly those producing for power plants, are increasingly seen as a millstone around the neck of diversified miners. The similarity between the rush to exit coal and Qatar's \$28.7 billion plan to boost its LNG production capacity 40% by 2026 is money. Qatar may be seeking to maximize revenue from its extremely low-cost gas assets while it still can — before decarbonization does to LNG what it's doing to coal.

Qatar is believed to be able to produce LNG at a break-even cost of about \$4 per million Btu, below the \$5 to \$11 for new projects elsewhere in the world. This means Qatar can afford to take the view that even if there is an oversupply of LNG in the future, it will be the last producer standing, and it can monetize its reserves better than its competitors.

Coal's cost advantage makes it hard for India to turn away

(Reuters; April 18) - India may build new coal-fired power plants because they generate the cheapest power for the country, according to a draft electricity policy document seen by Reuters, despite growing calls from environmentalists to deter use of the fuel. Coal's contribution to electricity generation in India fell for the second straight year in 2020, marking a departure from decades of growth in coal-fired power. Still the fuel accounts for nearly three-fourths of India's annual power output.

Environmental activists have long rallied against India adding new coal-fired capacity. Solar and wind energy prices are falling to record lows, which would help the world's third-largest greenhouse gas emitter cut its emissions. However, a 28-page February

draft of the National Electricity Policy 2021 — which has not been made public — showed India may add new coal-fired capacity, though it recommended tighter technology standards to reduce pollution.

“While India is committed to add more capacity through non-fossil sources of generation, coal-based generation capacity may still be required to be added in the country as it continues to be the cheapest source of generation,” the draft read. Future coal-based plants should only deploy “ultra-super critical” less-polluting technologies or other efficient technologies, it added. While suggesting flexible use of coal and natural gas to ensure grid stability, the draft lists promoting clean power as its primary objective.

Coal consumption expected to hit record this year in China

(Bloomberg; April 20) – China’s coal consumption is poised to hit a record this year, contradicting a view held by many climate change and energy experts that the heavy coal use in the world’s second-biggest economy had peaked. A 4% surge in Chinese coal demand, coupled with higher consumption elsewhere in Asia, as well as in the U.S. and Europe, will trigger a large increase in carbon emissions, the International Energy Agency said, days before global leaders meet to discuss the climate change challenge.

The IEA’s analysis is the latest evidence that the shuttering of the global economy because of the pandemic will only be a temporary limit on the emissions warming the planet. Carbon dioxide emissions related to the energy sector are set to rise by 1.5 billion metric tons in 2021, the biggest gain since 2010. A major part of that is the increase in China’s coal demand. Overall, global energy demand is set to increase by 4.6% this year, with developing economies pushing it above the 2019 level.

Asia will continue to drive the demand for coal. In the U.S. and Europe, coal use will gain, but the forecast remains below levels from two years ago. Overall global coal demand will rise 4.5%, beyond the level seen before the pandemic. For the past few years, it looked as if China’s coal consumption crested around 2013-14, and many saw what they called “peak coal” as the first evidence that Beijing was making progress. The increase in coal demand indicates China may struggle more to lower its emissions.

Local businesses hurt by Total’s decision to halt work in Mozambique

(Bloomberg; April 20) - Mozambican businesses looking to cash in on Africa’s biggest private investment are facing financial disaster after an attack by Islamic State-linked militants on a town close to Total’s \$20 billion natural gas project. The French oil major has begun terminating business with at least some contractors working at the project site in Palma in northeastern Mozambique, according to letters seen by Bloomberg.

Hours after Total announced on March 24 it was returning to work on its liquefied natural gas project stalled since January because of rising insecurity, more than 100 rebels began a raid on Palma. Dozens of people died, millions of dollars of property was damaged in the ensuing violence, and the company froze its plans to resume work. Julio Sethy, who has invested in property, a quarry and transport business in the provincial capital of Pemba, reckons it's unlikely Total will restart this year.

The consequences for businesses like Sethy's are dire. "It's a complete disaster," he said last week. Small and medium-sized local enterprises have already lost \$90 million since the attack on Palma, Agostinho Vuma, president of the Confederation of Economic Associations of Mozambique, said April 20. Total's termination of contracts indicates it won't restart work for at least a year, Eurasia Group said in a note April 21. That will lead to significant delays in gas revenues to the government, according to the New York-based company that monitors political risk for investor clients.

Mexico producing less gas, hits record for imports from U.S.

(Natural Gas Intelligence; April 21) - Only a few months after President Andres Manuel Lopez Obrador vowed to end his nation's dependence on natural gas imports from the United States, Mexico's need for Lower 48 gas is surging. April is usually a month of lower demand in Mexico, when gas infrastructure undergoes maintenance and imports drop, but this month has been different. Gas imports from the U.S. are surprising the market and analysts are now revising their summer forecasts to the upside.

On April 14, a single day U.S.-to-Mexico record was broken when exports reached 7.1 billion cubic feet per day. U.S. exports to Mexico averaged 7 bcf per day last week. Tudor, Pickering, Holt & Co. analysts said exports during the period outpaced their model by around 1.5 bcf a day. Some of the higher demand for U.S. gas in Mexico is attributable to new pipelines that can deliver the fuel south of the border.

One factor in the increased need for imports is sliding domestic production. Gas output in Mexico has dropped by about 400 million cubic feet per day since last September. Analysts at Wood Mackenzie attribute the decline to technical failures and maintenance events at the Ciudad Pemex, Nuevo Pemex and La Venta gas processing complexes, as well as high gas flaring and venting. State oil company Petroleos Mexicanos (Pemex) has seen dry gas production declining since 2009, while flaring levels are up.

Oil pipeline developer tries to resolve dispute in Memphis

(The Associated Press; April 20) - A company facing resistance to its plans to build a 49-mile-long oil pipeline over an aquifer that provides drinking water to 1 million people has asked for a "mutual pause" in its dispute with city officials in Memphis, Tennessee.

Plains All American Pipeline sent a letter to the Memphis City Council about a proposed city law that could make it harder to construct an underground oil pipeline through wetlands and neighborhoods in south Memphis and north Mississippi.

Plains is part of a joint venture with Valero Energy to build the Byhalia Connection, which would link the Valero refinery in Memphis with a larger line in north Mississippi. The council's ordinance would establish a board to approve or deny construction of underground pipelines that transport oil or other potentially hazardous liquids near wells that pump millions of gallons of water daily from the Memphis Sand Aquifer. The ordinance is backed by pipeline opponents who fear a spill would endanger the aquifer.

The council made no mention of the Plains letter during action April 20 to delay a vote on the ordinance for two weeks. Councilors said they postponed a decision so they could address questions and allow more input. In the letter, Plains said Byhalia Connection is willing to suspend development activities and address city council and community concerns "if the city is willing to suspend consideration, adoption, or final reading of the existing or any new ordinance that could affect the pipeline or refinery."

Novatek contends gas fields should feed LNG, not pipeline exports

(The Barents Observer; Norway; April 19) - The Tambey fields are located in the northeastern part of the Yamal Peninsula and are considered among the biggest undeveloped natural gas resources in Russia. The development licenses were granted to Gazprom in 2008, but Leonid Mikhelson argues they should be transferred to his company, Novatek. In a meeting with Vladimir Putin on April 13, Mikhelson is reported to have convinced the president that the Tambey resources should be developed as a liquefied natural gas export project and that Novatek is best suited for the venture.

The fields are believed to hold up to 260 trillion cubic feet of gas, allowing Novatek to significantly boost its resources base in the region where it already operates one LNG export terminal and is building a second. However, Gazprom is not interested in giving up control over the resources, Russian newspaper Kommersant reported. Sources told the newspaper that Novatek is offering Gazprom a combination of cash and company shares for the fields, but Gazprom said no. The state company intends to develop the fields for pipeline exports. Gazprom is the dominate supplier of gas to Europe.

Chinese LNG importers balk at requirement to buy expensive cargoes

(Reuters; April 20) - Most companies shortlisted for PipeChina's liquefied natural gas import terminal slots are backing off from a deal as terms proposed by the operator threaten to jack up costs, sources said. PipeChina has proposed that LNG terminal users share the burden of the three national state oil companies' more expensive long-

term contracts. The plan, which has yet to be finalized, is for each new importer to buy one legacy-priced cargo in order to win a slot for their own spot import, sources said.

The cost-sharing proposal has slashed the number of firms expected to sign up for import terminal access, the sources said. In late January, PipeChina shortlisted 54 firms from 82 applicants to sign up for delivery slots at half a dozen receiving terminals it now manages. PipeChina was due to start opening the terminals to third-parties this month. But since the proposed terms, companies are now delaying finalizing contracts or postponing the slots already agreed, trading sources told Reuters.

Sources estimate only around a fifth of the 54 shortlisted buyers are likely to agree to the terms, suggesting that China's LNG demand may fall short of expectations. Demand had been based on assumptions that a rush of new buyers would soon enter the market. "Many are worried about being caught with unknown cost inflation linked to (buying) the legacy cargoes," said a Beijing-based official with a major gas importer.

U.S. LNG project plans assessment of its greenhouse gas emissions

(S&P Global Platts; April 19) - NextDecade will have the greenhouse gas intensity of the LNG produced at its proposed liquefaction terminal in Texas assessed, partnering with a Colorado company that is already working with several U.S. gas producers to certify their supplies as responsibly sourced. NextDecade's pilot program with Project Canary, announced April 19, comes as the developer pursues an aggressive carbon-capture and storage project at its yet-to-be sanctioned Rio Grande LNG terminal in Brownsville.

With strict carbon-emissions goals, European utilities are being pressured to shy away from signing new deals for importing U.S. shale gas. Amid that undercurrent, several North American liquefied natural gas export terminal developers have been advancing initiatives designed to show that shale gas can bridge the energy transition to greater use of cleaner-burning fuels and aid rather than impede buyers' climate goals.

Project Canary has arrangements with over 20 upstream and midstream companies related to its emissions monitoring and certification technology, CEO Chris Romer said. The pilot project with NextDecade will involve monitoring, reporting and independent third-party measurement and certification of the greenhouse gas intensity of LNG to be sold from Rio Grande. The goal includes development of responsibly sourced gas from producers in the Permian and Eagle Ford basins to feed the export terminal. NextDecade is targeting a final investment decision on the terminal later this year.

Enbridge wants to convert U.S.-Canada oil line to long-term contracts

(Natural Gas Intelligence; April 20) - Alberta and Saskatchewan oil producers stand to gain committed customers, reliable tolls and shipping capacity growth from the hotly contested service overhaul proposal for their chief pipeline to markets across Canada and the U.S., according to Enbridge. The Calgary pipeline conglomerate predicted the benefits in its response to objections over its plan to convert 90% of its Mainline, at 2.9 million barrels per day, to years-long contracts from monthly common carrier bookings.

Hearings are scheduled to start May 19 before the Canada Energy Regulator. Critics have inundated Enbridge with more than 3,000 questions. Evolving Canadian and U.S. climate change policies, plus expansions totaling almost 1 million barrels per day now under construction by Trans Mountain Pipeline and Enbridge Line 3, are prompting the Mainline to adapt by ending its 70-year-old common carrier history, the company said. The line moves Canadian oil into the Midwest, including the Chicago and Detroit areas.

The ability to sell years-long service contracts would provide trustworthy market signals that pipelines increasingly need before embarking on expansion projects, Enbridge said. Industry critics worry about being locked into long-term pipeline contracts, rather than the more flexible common-carrier access to the line, though the ability to move oil down the line can be restricted when supply exceeds capacity.

UAE wants its oil to be ‘the least carbon intensive in the world’

(Bloomberg; April 20) - The United Arab Emirates, one of the world’s biggest oil producers, said the commercial case for renewable energy has never been stronger. The Mideast country plans to be at the forefront of the transition to greener energy and the fight against climate change even as it boosts its oil production capacity, said Sultan Al Jaber, head of the state’s Abu Dhabi National Oil Co. and the UAE’s climate envoy.

The nation aims to be a “global leader in producing the maximum amount of hydrocarbons with the least emissions,” Al Jaber said during a webinar hosted by the Atlantic Council on April 20. “The world will still rely on oil and gas for decades to come, so that oil and gas has to be very low carbon. We are working to make our barrels the least carbon intensive in world.”

The UAE, of which Abu Dhabi is the capital, plans to boost hydrogen output and increase its ability to capture carbon emitted during the production of hydrocarbons, he said. The UAE see hydrogen developing as a major energy source over the next 20 years. Meanwhile, Abu Dhabi, which holds most of the oil in the UAE, wants to boost its oil output capacity by about a fifth to 5 million barrels a day by 2030.