Oil and Gas News Briefs
Compiled by Larry Persily
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A lot of competition for the next U.S. LNG projects

(S&P Global Platts; April 5) - Some U.S. LNG developers have expressed renewed optimism in recent months that growing interest among world buyers in signing long-term deals will boost the prospects for new projects in 2021, following a year marked by a lack of final investment decisions. More than a dozen LNG developers in North America are competing for buyers amid a strong rebound in LNG demand. But so far this year, the pool of potential U.S. projects has gotten smaller with Annova LNG's recent decision to cease efforts on its proposed export facility in Texas, citing "changes in the global LNG market." Analysts expect more projects will fall by the wayside.

"There is room for two, three or four projects in the U.S.," Jason Feer, head of business intelligence at Poten & Partners, said. "What that means is, you are going to have to be one of the most competitive." In 2020, just one liquefaction project reached a final investment decision — Sempra Energy's Costa Azul terminal on Mexico’s West Coast. Other developers, especially those with greenfield projects that would be built from the ground up, have struggled to build sufficient commercial support to secure financing.

The challenges include pressure from buyers to be flexible on pricing and terms as well as pressure to bring down project costs. Developers also face mounting concerns over the supply chain emissions associated with U.S. LNG. And then there is Qatar’s recent FID announcement on an expansion capable of producing 33 million tonnes of LNG per year in its first phase, which could crowd out rival projects in the U.S. There are six U.S. LNG terminals in operation with two more under construction and expected to start operations possibly late this year for one and in 2024 for the other. In addition, a few of the operating terminals are looking at cost-efficient expansion of their output capacity.

U.S. ‘has to worry about oil prices being too high or being too low’

(Financial Times; London; April 6) - After a year of head-spinning volatility in American petro-diplomacy, a reversion to normal is underway. The U.S. wants cheap oil. “I had a productive call with Saudi Energy Minister Abdulaziz bin Salman al-Saud,” tweeted U.S. Energy Secretary Jennifer Granholm last week. “We reaffirmed the importance of international cooperation to ensure affordable and reliable sources of energy for consumers.” That was just hours before a meeting of the OPEC+ oil-producers cartel.

Abdulaziz said the two did not talk crude, but Granholm’s subtext was plain to anyone who has watched decades of Saudi-U.S. relations. It read: Keep a lid on crude prices.

It marks an abrupt shift from the Trump era. Twelve months ago, U.S. producers begged Trump to help stop an oil crash, so he piled pressure on Russia and Saudi Arabia to slash supply and prop up prices. Now the Biden administration has reverted to the mean, evidently fretting that a 60% rally in prices since November has gone too far.

Whatever President Joe Biden said about a "transition from the oil industry" and decarbonizing the U.S. economy, oil prices still matter to a superpower with geopolitical responsibilities. "The United States has core interests in the stability of the global economy and that means the U.S. administration … has to worry about oil prices being too high or being too low," said Amy Myers Jaffe, a professor at Tufts University's Fletcher School of Law and Diplomacy. If prices rise too quickly, "it could be devastating for low-income importing countries," she said. It also matters domestically — especially among poorer Americans, who spend a higher proportion of their income on fuel.

Occidental CEO thanks OPEC+ for helping to boost oil prices

(Bloomberg; April 6) - Occidental Petroleum praised OPEC and its allies for managing crude markets out of last year's historic crash and said the U.S. shale industry is thankful for its efforts. "They've been brilliant in the way they've handled it, the way they've been doing it," Chief Executive Officer Vicki Hollub said at a conference hosted by the Texas Independent Producers & Royalty Owners Association on April 7. "Every U.S. oil and gas company is appreciating their efforts."

OPEC+ and U.S. shale have been rivals much of the past decade with the Americans' rapid growth eating away at the cartel's share of the oil market and the power to control it. But the U.S. has lost about 2 million barrels a day, or 15% of its production, over the past year, and future growth is severely challenged by U.S. producers' diminished access to capital and shareholder demands for cash returns over more output.

Hollub says "too much investment" would be required for the U.S. to return to its peak of about 13 million barrels a day achieved in the first quarter of 2020. As such, Hollub sees OPEC bringing back some of its curtailed barrels but not enough to exceed global demand in the second half of the year. "They're trying to get back to a supply-demand situation," Hollub said. "Many of the countries worldwide need 60 or 70 or 80 dollars to break even, and so ultimately I think in 2022 we'll get to $70 or better."

Norway's sovereign wealth fund invests in Dutch offshore wind farm

(Financial Times; London; April 7) - Norway's $1.3 trillion oil fund has made its first investment in renewable infrastructure, shrugging off concern about the recent prices paid for wind power projects, as its chief executive said he wanted to "tune up" returns at the world's largest sovereign wealth fund. The oil fund on April 7 said it would pay €1.4 billion (US$1.66 billion) for a 50% stake in a Dutch offshore wind farm owned by Orsted, the Danish renewable energy giant that will remain operator of the project.

Under its mandate from Norway's parliament, the fund can invest up to $14.2 billion in renewable infrastructure. It is seeking to become one of the world's biggest such investors as it diversifies its portfolio away from equities, bonds, and property. "We think we have a competitive advantage in that we're a large fund that can write a large cheque. … This is an area where we see a lot of opportunities going forward," Mie Holstad, chief real assets officer at the fund's manager, told the Financial Times.

Norway has diverted its petroleum revenues into the fund for more than a quarter of a century, building up the world's largest sovereign wealth account that until recently only owned public securities. In the past decade, it has become one of the world's largest property investors, owning large swaths of prime real estate in cities such as London, New York, and Tokyo. The fund has been able to invest in wind and solar power projects since the start of 2020, and Holstad said it looked at eight potential projects last year.

Total pulls all staff out of Mozambique LNG work site

(Reuters; April 2) - French energy major Total has withdrawn all its staff from its Afungi natural gas project site in northern Mozambique, two sources said April 2, as clashes between Islamic State-linked fighters and the military rage nearby. The company, which last week called off the planned resumption of construction at the $20 billion development due to the violence, declined to comment when contacted by Reuters.

The government said dozens of people have died since militants launched attacks in the coastal town of Palma last week in a district near gas projects worth tens of billions of dollars that are meant to transform Mozambique's economy. The two sources, who have direct knowledge of Total's operations, said the company decided to withdraw its staff as militants appeared to get closer to the site of the liquefied natural gas terminal under construction with a planned 2024 start-up date.

Insurgents took over some Mozambican military positions near the Afungi site south of Palma on April 2 and the situation was still highly volatile, a separate security source told Reuters. The World Food Programme said it was temporarily suspending evacuation flights from Palma for people affected by the violence, citing a deterioration in the security situation. Islamic State-linked insurgents have been increasingly active in the surrounding province of Cabo Delgado since 2017.

[Investment firm KKR buys into Sempra LNG business]

(Natural Gas Intelligence; April 5) – Global investment firm KKR is buying a stake in a Sempra Energy business unit that manages liquefied natural gas projects in Mexico and on the U.S. Gulf Coast as it anticipates growth in North American energy infrastructure. Under the terms of the deal announced April 5, KKR will pay $3.37 billion for a 20% non-controlling interest in the Sempra Infrastructure Partners subsidiary. Sempra said the transaction is expected to close by mid-2021, subject to customary conditions.

Sempra Infrastructure Partners was formed in December. It combined the Sempra LNG unit with Sempra's Infraestructura Energetica Nova (IEnova) subsidiary in Mexico. At the time, Sempra said it was looking to sell a minority stake in the business. In Mexico, Sempra LNG and IEnova are jointly developing the Energia Costa Azul export project in Baja California, which was the only LNG development in North America to be sanctioned last year. The first phase, with capacity of 2.5 million metric tonnes per year, is expected to come online in 2024.

The Sempra infrastructure unit also owns a stake in the Cameron LNG export terminal in Hackberry, Louisiana, which has been shipping gas since 2019, with an annual output capacity of 15 million tonnes per year. The owners are considering an expansion. And Sempra is the lead partner in the proposed Port Arthur LNG export terminal southeast of Houston, at 13.5 million tonnes per year. An affiliate of Saudi Arabian Oil Co. (Saudi Aramco) is a partner in the venture, which could be sanctioned this year.

[India reduces its purchase of Saudi oil to protest higher prices]

(Reuters; April 6) - Indian state refiners will buy 36% less oil from Saudi Arabia in May than normal, sources said, in a sign of escalating tensions with Riyadh even after the Kingdom supported the plan for gradually boosting output by OPEC and its allied producers last week. Energy relations between India, the world's third-biggest oil importer and consumer, and Saudi Arabia have soured as global oil prices spiked. New Delhi blames cuts by the Saudis and other oil producers for driving up crude prices as India's economy tries to recover from the pandemic.

State-run refiners have placed orders to buy 9.5 million barrels of Saudi oil in May, compared with the previously planned 10.8 million, three sources said. The refiners normally buy 14.8 million barrels of Saudi oil in a month. The decision to buy less oil was taken April 5, two days after a phone call between Indian Oil Minister Dharmendra Pradhan and his Saudi counterpart Prince Abdulaziz bin Salman, three sources said.

India suggested its refiners look for energy alternatives to Gulf oil, their main source of crude. Tensions between the two countries further escalated after Abdulaziz last month advised India to use the stocks of crude it bought cheaply during the price slump in

2020. Pradhan termed Abdulaziz's response as "undiplomatic." To dial down the disagreement, Abdulaziz last week said Aramco maintained normal April oil supplies to Indian refiners while cutting volumes for other buyers, and conceded that voluntary output curbs has put "Aramco in some difficulty with some of its partners."

Shared Kuwaiti-Saudi zone ready to produce more oil

(S&P Global Platts; April 5) - As OPEC and its allies prepare to ease up on their production cuts, the Neutral Zone shared between Kuwait and Saudi Arabia stands ready to provide a significant source of additional output. The zone is capable of pumping near to its previous maximum of about 500,000 barrels per day, but has largely been curtailed by the OPEC+ agreement. That could change, though some lingering sovereignty and fiscal issues still need to be resolved, sources told S&P Global Platts.

Saudi Energy Minister Prince Abdulaziz bin Salman told reporters April 1 that the kingdom's share of Neutral Zone production was currently 135,000 barrels per day. Since the two countries split output from the area equally, that implies total production at about 270,000. "The low rate of production [in the Neutral Zone] is due to the OPEC quotas," said Kamal al-Harami, a Kuwait-based independent oil analyst. "If the OPEC agreement wasn't in place, it could produce in the region of 500,000 barrels per day."

S&P Global Platts Analytics forecasts production volumes from the shared fields could hit 400,000 in May and climb to 500,000 by August. The fields contained in the Neutral Zone lie in onshore and offshore territory shared by the two nations at their border. The countries agreed in 1970 to co-manage and share production from the zone equally. One source familiar with the developments said the OPEC+ cuts have allowed time for the fields and facilities to be rehabilitated for future production.

Largest deal for privately held shale producer since 2011 announced

(The Wall Street Journal; April 3) - Pioneer Natural Resources' $6.4 billion deal to buy DoublePoint Energy is the latest sign of renewed interest in smaller shale drillers as oil prices recover from last year's lows. The deal, announced April 1, was the largest acquisition of a privately held U.S. shale company since 2011. It follows the sale of a number of smaller companies and shows momentum in what had been a moribund market, according to executives, investors, and data from consulting firm Enverus.

The market for private oil producers had tumbled in recent years as investors, frustrated following years of dismal returns, pushed larger shale companies to curtail investments and stop buying smaller debt-laden companies. That has changed in recent months — at least for private companies with better assets and less debt — as U.S. benchmark prices hover above $60 a barrel. A surge in the shares of U.S. oil producers, following the rollout of COVID-19 vaccines and a slow but steady recovery in oil demand, is enabling larger companies to use their equity to pay for targeted acquisitions.

Pioneer, led by CEO Scott Sheffield, plans to issue 27.2 million shares and spend $1 billion in cash in the DoublePoint deal, set to close in the second quarter. Pioneer plans to dial down DoublePoint's growth projections from an anticipated 30% a year to the 5% range, "consistent with our game plan," Pioneer President Richard Dealy said. As oil and shale company share prices have climbed, so have valuations. Pioneer's deal values DoublePoint's land at north of $30,000 an acre, according to Enverus, up from an average of $10,000 an acre across sales last year in the Permian Basin.

Global trader expects longer recovery for jet fuel demand

(S&P Global Platts; April 6) - Global oil demand will continue growing for another decade but near-term consumption of jet fuel to pre-2019 levels will take "some time," Vitol, the world's biggest independent oil trader, said April 6. After its traded oil volumes took a hit from the pandemic last year, Vitol said it expects a recovery in most sectors in the second half of this year, despite the outlook for jet fuel remaining uncertain.

Longer-term, the trading house expects a shift in energy demand, with demand for "transitional" fuels such as LNG, natural gas and propane growing while low-carbon power capacity builds. In 2020, Vitol said its volumes of traded crude and oil products slid by 11% due to the collapse in global demand during the COVID-19 pandemic.

During 2020, Vitol said its traded jet fuel volumes were the most affected by the pandemic, dropping 39% year-on-year. With air travel demand expected to be structurally damaged due to behavioral changes as a result of the pandemic, Platts Analytics does not expect global jet and kerosene demand to return to 2019 levels of 8.1 million barrels per day before 2026. Vitol supplies over 3.5 million barrels per day of crude and feedstocks to the global refining industry and estimates that 250 ships are transporting its cargoes of oil, fuel, LNG and coal at sea at any one time.

U.S. energy agency reduces oil production forecast

(Bloomberg; April 7) - The U.S. has reduced its oil production forecast through next year just as OPEC and its allies begin to roll back their production cuts in the coming months. U.S. oil output is set to reach 11.04 million barrels day this year, down from last month's forecast at 11.15 million after a deep freeze in February that shut down the oil industry in Texas, according to U.S. government data. The Energy Information Administration also lowered its output forecast for 2022 by 100,000 barrels a day.

The lower output forecast comes as Wall Street has grown reluctant to fund growth while shale operators are focused on increasing cash flow and return to investors rather than boosting production. “It would be very hard for the U.S. oil and gas industry to get back to over 13 million barrels a day. I don’t think that’s going to happen,” Occidental Petroleum CEO Vicki Hollub said at a conference April 7. “Too much investment would be required,” she said, reiterating her view that the U.S. has passed peak oil production.

Even though the EIA has lowered its forecast, production will likely continue to expand modestly from current levels. American explorers are still moving to add supply, last week they to add the most rigs in more than a year. Still the oil rig count stands at about half of what it was when the pandemic began.

BP on track to reduce net debt to $35 billion

(The Wall Street Journal; April 6) - BP said it had a solid start to the year, aided by higher energy prices and strong results from its trading division, giving the first sign that major oil companies are on the road to recovery after pandemic-induced losses across the industry last year. The company said April 6 it was on track to lower net debt to $35 billion in the first quarter, a level it has said could trigger share buybacks. BP previously said it expected to reach the target between fourth-quarter 2021 and first-quarter 2022.

BP said it received about $4.7 billion from selling assets during the first quarter of the year. The company aims to sell $25 billion of assets between the second half of 2020 and 2025 and is over halfway to meeting the goal with $14.7 billion sold. One of the largest recent divestments was the sale of BP’s petrochemical business to British chemicals company Ineos for $5 billion last June. It received some of that money during the first quarter, as well as proceeds from the recent sale of an asset in Oman and the sale of an interest in data-mining company Palantir Technologies.

Japanese ship owner plans to reduce emissions, looks to LNG

(Nikkei Asia; April 6) - Japanese maritime shipping company Mitsui O.S.K. Lines will invest 200 billion yen ($1.8 billion) in areas related to cutting carbon dioxide emissions through fiscal 2023, according to a business plan released April 5. The latest version of the annually revised three-year plan sets a goal of achieving net-zero emissions by 2050 — a significant step up from the target of "within this century" in the fiscal 2020 plan — reflecting a pivot from fossil fuels that has spread to the carbon-heavy industry.

As part of this strategy, Mitsui O.S.K. will introduce ships powered by liquefied natural gas, with a focus on large vessels such as car carriers and crude oil tankers. While the company did not provide details on how much of its fleet will be fueled by LNG, it is expected to gradually switch over about 30% to 40% of its ships in the next 10 years.

"LNG looks almost certain to be the leading next-generation fuel of the 2020s" amid the decarbonization trend, President Takeshi Hashimoto said in a virtual news conference.

But LNG-powered vessels reduce greenhouse gas emissions by only about 30% compared with conventional ships that use heavy fuel oil, meaning that other steps will be necessary to achieve net-zero emissions. "We will also need to switch to new alternative fuels such as hydrogen and ammonia," Hashimoto said. The three-year plan also calls for taking advantage of the shift away from carbon by investing in wind power, including offshore wind, along with LNG.

Italy's Eni, Chinese utility sign energy cooperation agreement

(Asia Times Financial; April 5) - Italian energy giant Eni inked a memorandum of understanding last week with Hangzhou-based power utility Zhejiang Energy for energy sector cooperation. The initiatives identified range from developing long-term liquefied natural gas supply agreements to joint participation in natural gas and LNG projects in China and internationally, Eni said.

The deal comes as Eni and China forge their own climate-neutral goals. Eni, for its part, has pledged to become carbon neutral by 2050 — similar to other European oil and gas majors. China is trying to offset its enormous greenhouse gas emissions, the largest in the world, by building out more gas infrastructure, including gas pipelines from Turkmenistan, Kazakhstan, Myanmar, and Russia, and a staggering number of LNG import terminals along its eastern coast. Beijing has set a goal of increasing gas as part of its energy mix to at least 10% by 2020, 15% by 2030, with further earmarks after that.

Pipeline giant says tax credits could help transition to cleaner energy

(Bloomberg; April 6) - Enbridge's push into new frontiers such as carbon capture and clean hydrogen production could use Canadian tax credits similar to those in the U.S., its CEO said. North America's biggest oil pipeline company, which for years has invested in wind and solar power projects, is also looking at gaining scale and becoming competitive in technologies such as hydrogen production using renewable electricity.

To get there, Enbridge is seeking incentives in Canada like the $35 to $50 per metric ton of credits for carbon dioxide sequestration and storage that exist in the U.S., Chief Executive Officer Al Monaco said in an interview. "It's all about scale, and in order to achieve scale you need some initial investment and initial incentives," Monaco said through video conference. "We're talking about it in Canada."

Enbridge last year became the first major company in the North American oil and gas industry to set a goal of eliminating net emissions from its operations by 2050. The industry is under growing shareholder pressure to address greenhouse-gas emissions. The Calgary-based pipeline giant's efforts include building solar power generators to run pump stations along its oil and gas lines. The company is a major investor in offshore wind in Europe and onshore wind farms in the U.S., and is talking with Canadian oil sands producers about capturing carbon emissions and injecting the gas underground.