# Oil and Gas News Briefs
# Compiled by Larry Persily
# February 15, 2021

## [Report warns oil-dependent countries are at risk of revenue crash]

(S&P Global Platts; Feb. 11) - Growing global momentum on decarbonization could leave countries that largely depend on oil and gas revenues facing a $9 trillion drop in income over the next 20 years, according to analysis by an environmental think tank. Most vulnerable are some of the world's poorest countries, including several OPEC members, London-based Carbon Trackers said in the report, calling on petrostates to restructure their economies and reexamine their planned investments in oil and gas.

Rather than risk stranded investments, the countries should coordinate "an orderly wind down of production, with global supply falling in line with decreasing demand and falling oil prices" in order to minimize their financial losses, the report said. A crash in revenues could lead to humanitarian crises and geopolitical instability. "If they go it alone and seek to monetize their existing reserves while they can, oversupply is likely to destroy value for all, with falling prices quickly outweighing the benefit of increased production."

OPEC has long maintained that oil will remain a dominant energy source in the decades to come. However, Carbon Tracker said that as the world commits to meeting climate targets, demand will fall much more quickly, calling its report a "wake-up call" to oil and gas producing countries. "Government oil revenues will shift dramatically as the market shakes out during the energy transition," co-author Andrew Grant said in a statement. Carbon Tracker identified Angola and Azerbaijan among seven countries that could lose 40% or more of their government revenues from declining oil and gas demand.

## [Federal drilling ban could squeeze states that need the money]

(Reuters; Feb. 9) - When Stan Rounds heard about President Joe Biden's plans to suspend new drilling on federal lands to fight climate change, he worried about school budgets. Rounds heads a New Mexico state association of school administrators. His state is home to the country's richest oil fields on federal lands and depends heavily on drilling revenues to finance its struggling public schools. Budgets have already taken a hit from falling oil prices as the coronavirus pandemic sapped global demand.

“While you appreciate the green policies for environmental issues, you can't strangulate the revenue streams in New Mexico,” said Rounds, executive director of the New Mexico Coalition of Educational Leaders. “We're very concerned.” New Mexico's money troubles reflect the dangers facing oil-dependent economies around the globe at a time when volatile petroleum prices and rising concern about climate change pushes governments to transition to cleaner energy sources.

Democratic politicians in a slew of oil-dependent states are being forced to reckon with a clash of progressive ideals: Their support for Biden’s plan to fight global warming could damage the fossil-fuel economy that has been a huge source of revenue. The federal lands drilling program sent $1.8 billion directly to states in 2020, supporting schools and other programs in places like Wyoming and Utah, according to data from the U.S. Interior Department. It also supports coastal erosion remediation efforts in hurricane-battered Gulf Coast states such as Louisiana.

## Shell plans to reduce oil production as it shifts to low-carbon power

(The Wall Street Journal; Feb. 11) - Shell says it will start reducing oil production, calling an end to a decades-old strategy centered on pumping more hydrocarbons as it and other energy giants seek to capitalize on a global shift to low-carbon power. It marks a historic turn for the company, which started out importing seashells, then began selling kerosene in the 19th century and worked to grow its oil business ever since.

Until recent years, Shell pursued expensive, environmentally challenging projects in Canadian oil sands and offshore Alaska, driven by fears the world could run out of oil. Now it sees demand faltering long before oil runs out. Shell says its oil production has already peaked and it expects output to decline 1% to 2% a year, including from asset sales, reducing its exposure to commodity prices in the longer term. The company plans to cut its output of traditional fuels such as diesel and gasoline 55% in the next decade.

At the same time, the company says it will double the amount of electricity it sells and roll out thousands of new electric-vehicle charging points. However, the pivot to low-carbon energy is seen by analysts as challenging because it requires investments in areas where major oil companies don’t necessarily have a competitive advantage and that have lower returns. Renewables projects typically generate returns of around 10%, compared with the traditional 15% targeted on oil-and-gas projects.

## China could be headed to peak oil demand

(The Wall Street Journal; Feb. 12) - Big Oil has become used to a ravenous China. But China’s energy companies are starting to look ahead to a peak in oil demand around mid-decade. Sinopec, China’s largest refiner, estimated in December that the nation’s demand for oil products will peak in 2025. While that might be ambitious, a confluence of events the past year suggests that the peak in China could still arrive before too long.

China in September committed to a carbon-neutral economy by 2060. In addition, the race for electric-vehicle supremacy is now on in earnest, with everyone from General Motors to Apple circling the market and President Joe Biden's election adding to investors' appetite. At the same time, U.S.-China relations remain extremely tense, and Beijing's discomfort with its dependence on large-scale oil imports and a vulnerability to disruption in a geopolitical crisis is rapidly rising. China is far and away the world's largest importer of crude, bringing in more than 10 million barrels a day in 2020.

Nonetheless, there are some significant roadblocks to achieving a peak in the next five years. China's oil consumption rose 5% in 2019 before COVID-19 hit, according to data from BP — slightly faster than the average of the previous five years. Chinese electric-vehicle penetration is rising quickly, but still relatively low at about 5% of new cars sold, and even current official targets only call for 20% by 2025. That means that to hit peak oil demand by 2025, China will need to significantly boost transportation efficiency.

## At prices over $60, OPEC+ risks losing market share to U.S. shale

(Reuters; Feb. 12) - Oil prices have reached a critical threshold where OPEC+ must decide whether to increase production or risk losing market share again to U.S. shale producers. Front-month Brent futures prices have climbed to more than $60 per barrel, up from less than $40 when the first successful vaccines were announced in November, and less than $20 when the pandemic was raging in April. In the past decade, whenever prices averaged more than about $57 per barrel, U.S. producers captured all the growth in global consumption, increasing market share at the expense of OPEC and its allies.

Responding to the earlier rise in prices, U.S. producers have already increased the number of rigs drilling for oil to nearly 300, up from a low of just 172 in August, according to oil field services company Baker Hughes. More recent price increases are likely to ensure the number of active rigs increases at least until the end of June, when the count is likely to exceed 425, or even 450, if the current trend continues.

Reflecting the rising rig count, U.S. output from the Lower 48 states excluding the Gulf of Mexico is forecast to climb from current levels by 340,000 barrels per day by the end of 2021. Further production gains of 640,000 barrels per day are expected by the end of 2022, according to the Energy Information Administration. If prices rise further, drilling and production are likely to accelerate even faster in the second half of 2021 and 2022.

## [IEA expects oil demand recovery to accelerate, draw down stockpiles]

(The Wall Street Journal; Feb. 11) - A recovery in global oil demand will accelerate in the second half of 2021 as the market continues to rebalance from the turmoil brought by the pandemic, according to OPEC and the International Energy Agency.  Despite increasing its estimates for oil output in 2021, the IEA said in its monthly report that a recovery in demand would outstrip production in the second half of the year, prompting “a rapid stock draw” from the glut of crude that has built up since the pandemic began.

A brightening economic outlook and strict supply discipline from OPEC+ producers are hastening the drawdown in global oil inventories, the IEA said.  A reduction in crude stockpiles has been a boost for oil prices.  “The prospect of tighter markets ahead” has been responsible for a rally in prices in recent weeks, the IEA said.  Brent crude, the global benchmark, has broken through the $60-a-barrel level for the first time in a year.

## [Oil rally helps to drawn down on U.S. oil storage inventory]

(Bloomberg; Feb. 11) - Oil storage locations across the Americas are emptying as the remarkable rally in crude prices undermines the need to buy and stockpile barrels. Tank owners were one of the few benefactors from last year’s collapse that spurred traders to buy crude cheap, store it, and then sell into a rally.  Now that the market has shifted into backwardation, where oil for prompt delivery is priced higher than later-dated contracts, storage is unprofitable.  U.S. benchmark crude has been around $58 a barrel all week.

Gulf Coast terminals are offering to lease tanks at less than half the rate at the height of the storage boom in 2020.  The rapid draining of the tanks underscores the remarkable turnaround in oil prices less than a year after West Texas Intermediate futures settled below zero for the first time.  The rebound can be attributed to aggressive supply cuts from OPEC and its partners, falling output in the U.S. and resilient demand in Asia.

This year about 1.9 million barrels of storage came available at St. James and Gibson in Louisiana and Beaumont in Texas, said Steven Barsamian, chief operating officer at The Tank Tiger, an independent storage brokerage.  “This is the most amount of storage we’ve seen up for rental in at least a year,” he said.  Crude inventories in Cushing, Oklahoma, and on the Gulf Coast have sunk to the lowest in more than six months.  Some terminal operators aren’t seeing leases renewed once users clear out supplies.

## Railroad could link Utah oil producers with more markets

(S&P Global Platts; Feb. 11) - The U.S. government will close the comment period Feb. 12 for the environmental impact statement on the proposed Uinta Basin Railway, a project aiming to link producers of the Utah basin's waxy crude with more lucrative markets outside the immediate area — potentially in the U.S. Gulf Coast and West Coast. The $1.5 billion project, unveiled in 2019 and sponsored by a quasi-government group called the Seven County Infrastructure Coalition in Utah, aims to build and operate the railway that would link to existing major rail loading facilities farther west.

The 85-mile line runs from two Uinta Basin receipt points. From there the rail network would allow shippers an alternative to trucking, which currently is the only transportation option out of the basin. Because of that limitation, most of the basin's crude is refined at five Salt Lake City area refineries. But analysts and Uinta Basin Railway partners believe if Uinta oil could more efficiently get to the Gulf Coast or West Coast, it would command a better price and potentially even encourage more production in the basin.

A rail line would likely be cheaper than trucking, Parker Fawcett, an analyst with S&P Global Platts Analytics, said. "Uinta production has long been declining as it is a high operating cost, low-producing basin," Fawcett said. "The basin is a mature, conventional play, and is … the least economic of the plays across the U.S." Regardless of the challenges, there is a lot of oil in the basin. Michael Vanden Berg, energy and minerals program manager at the Utah Geological Survey, estimated the Uinta resource potential runs in the "billions, like one, two, or three."

## Shell targets future LNG investments at $5 per million Btu

(Argus Media; Feb. 11) - Shell aims to expand its liquefied natural gas portfolio in the coming years — with plans to create additional demand in new markets — as part of its energy transition strategy. The firm aims to create 3 million tonnes per year of additional demand from new markets by 2025, the firm said in its energy transition strategy presentation. N ew target markets include the Philippines, Indonesia, Brazil, Pakistan, and the Bahamas.

Shell is also looking to expand its LNG portfolio with additional off-take agreements, including Mozambique LNG for 2 million tonnes per year and a similar contract with Venture Global, developer of the Calcasieu Pass export terminal in Louisiana. Additional agreements will add further to Shell's production capacity, which is expected to increase by 7 million tonnes per year by 2025 once the LNG Canada plant in British Columbia and the seventh liquefaction train at Nigeria's Bonny complex are on line.

Shell plans to invest only in competitive LNG assets with a technical cost of less than $5 million per Btu, the company said. This would be in line with its average cost, which has fallen by approximately 40% to $4.80 per million Btu from about $8 in 2015. Shell expects global LNG trade to continue to expand in the coming years and reach about 670 million tonnes per year by 2040. Global LNG deliveries totaled 365 million tonnes in 2020. Shell delivered 70 million tonnes last year, it said, with its fleet of 60 LNG carriers.

## Developer lands $500 million financing for Louisiana LNG project

(S&P Global Platts; Feb. 11) - Venture Global LNG has secured $500 million in financing to help fund pre-construction work for its second liquefaction project in Louisiana, the Plaquemines LNG terminal, planned for 20 million tonnes per year, the company said Feb. 11. The work will involve pre-final investment decision activities. Venture Global is targeting full construction to begin in 2021. It has yet to declare a final investment decision, though it has all its federal regulatory approvals in hand.

JPMorgan Chase and Morgan Stanley, as arrangers, and Mizuho Bank and Bank of America, as lenders, provided the term loan that Venture Global will use to fund the construction-related activities at Plaquemines LNG, as well as for general corporate spending. The banks are among lenders that worked with Venture Global on the Calcasieu Pass project, the company said in a statement. Calcasieu Pass, at 10 million tonnes per year, is under construction with its first LNG scheduled for 2022.

Venture Global is seeking more commercial support for Plaquemines LNG. The company sanctioned Calcasieu Pass with about 90% of its total off-take sold under long-term agreements. To date Venture Global has announced 3.5 million tonnes per year of off-take agreements for Plaquemines LNG, which represents 17.5% of the total proposed capacity or 35% of the project's first phase. Analysts expect Plaquemines will be one of the few U.S. LNG projects to go forward this year.

## Cheniere ready to start up another unit at LNG terminal in Texas

(Reuters; Feb. 11) - Cheniere Energy has asked the Federal Energy Regulatory Commission to approve the company's request to put into service the third liquefaction train at its Corpus Christi liquefied natural gas export plant in Texas. The train has been operating for months in test mode. In its filing Feb. 10, Cheniere asked FERC to approve its request at the earliest date possible, but no later than March 12.

There are already two trains operating at Corpus Christi, each with capacity to produce about 5 million tonnes per year of LNG, equivalent to about 660 million cubic feet per day of natural gas. Cheniere started production at its first unit in Corpus Christi in 2018, following the start-up in 2016 of its LNG export terminal in Sabine Pass, Louisiana, the first U.S. Gulf Coast liquefaction plant.

In addition to Cheniere's two operations, two other LNG terminals are producing on the Gulf Coast and two on the East Coast with two more under construction on the Gulf. As more units under construction enter service, U.S. LNG export capacity is expected to rise to 11.9 billion cubic feet per day in 2022 from 10.5 bcf per day currently. By the mid-2020s, analysts expect the United States will temporarily become the biggest LNG exporter in the world, ahead of current global leaders Qatar and Australia. Qatar, however, has embarked on a $29 billion expansion and will reclaim the title by 2026.

## Too many new LNG supply projects could lead to another glut

(The Wall Street Journal; Feb. 12) - There are early signs of a new wave of investment in liquefied natural gas, oil's cleaner cousin. The industry is trumpeting a new capital discipline, but it might not be enough to stop another glut. This week Qatar signed off on a 40% expansion of its LNG production capacity. The North Field East project, due for completion in 2026, ranks as the single-largest LNG investment ever approved.

Even after a traumatic 2020, the wider industry may find it hard to resist competitive responses. LNG plays a key role in the strategies of all big five oil-and-gas supermajors. It has better growth prospects and emits fewer greenhouse gases than oil, yet offers a more familiar business model than renewables. LNG projects often take four to five years to build and need buyer commitments for 80% to 90% of output to get funding.

Until recently customers had moved away from long-term contracts, preferring to buy on the spot market at persistently low prices, but a winter price spike in Asia reminded buyers of the risks of that approach. Customers now increasingly want long-term supply contracts, creating an opportunity to fund new projects. The risk is that everyone moves at once. Capital spending cuts following last year's plunge in prices put many LNG plans on hold. Reviving them all would result in about a billion extra tonnes of the fuel a year, according to consulting firm Rystad Energy. That's nearly 10 times the amount Rystad expects to be required by 2030. Even now global gas supply exceeds demand.

## IEA sees India as world's third-largest energy consumer by 2030

(Reuters; Feb. 9) - India will make up the biggest share of global energy demand growth at 25% over the next two decades, as it overtakes the European Union as the world's third-biggest energy consumer by 2030, the International Energy Agency said. India's energy consumption is expected to nearly double as the nation's gross domestic product expands to an estimated $8.6 trillion by 2040 under its current national policy scenario, the IEA said in its India Energy Outlook 2021 released Feb. 9.

India's growing needs will make it more reliant on imports, as its domestic oil and gas production has been stagnant for years despite government policies to promote exploration and production and renewable energy.  India's oil demand is expected to rise to 8.7 million barrels per day in 2040 from about 5 million in 2019, the IEA said.

India currently imports about 76% of its oil needs.  That reliance on overseas oil is expected to rise to 90% by 2030 and 92% by 2040, the IEA said.  In addition, India, the world's fourth-largest LNG importer, ships in about half of its gas needs by tanker and is spending billions of dollars to build infrastructure to boost use of the cleaner fuel. Liquefied natural gas imports are expected to quadruple to almost 4.4 trillion cubic feet, or about 61% of India's overall gas demand, by 2040, IEA said.

## States threaten to sue federal government over Keystone XL

(Financial Post; Canada; Feb. 10) - More than a dozen U.S. states are considering lawsuits against the federal government following the cancellation of the Keystone XL oil pipeline, but experts say Alberta should pursue diplomatic avenues to try to revive the project before taking legal action of its own.  Since President Joe Biden signed an executive order revoking cross-border permits for the billion pipeline on his first day in office, a number of union leaders, Republican and Democrat lawmakers and attorney generals from 14 states have urged the president to reconsider his decision.

The 830,000-barrels-per-day pipeline project has been through regulatory and legal hurdles in the U.S. for more than a decade as proponent TC Energy has sought to build a line from Alberta to carry oil sands crude to heavy-oil refineries on the U.S. Gulf Coast.  Construction was underway in Alberta, Saskatchewan, Montana and South Dakota before Biden's executive order last month.

U.S. Sen. Joe Manchin, a Democrat from West Virginia and chairman of the Senate Energy and Natural Resources Committee, sent Biden a letter Feb. 9, urging him to reconsider the cancellation of Keystone XL and "take into account the potential impacts of any further action to safety, jobs, and energy security."  Similarly, Montana Attorney General Austin Knudsen along with the attorneys general of 13 other states wrote a letter to Biden, making the same request and threatening legal action.

## Argentina's shale oil field jumps to record production in December

(Reuters; Feb. 11) - Argentina's "Dead Cow" is roaring back to life.  Oil output from the Vaca Muerta region in Patagonia, which holds the fourth-largest shale oil reserves in the world, stalled during the coronavirus pandemic but hit a record high in December as producers revved up wells with an eye on rebounding prices and a new export market. The revival of the formation — which has been compared with the U.S. Permian Basin

— signals how it is growing more competitive globally, helped by government policies that protect oil producers, an export tax holiday and reviving global prices.

That could bring a timely injection of much needed dollars for the government, which has grappled with a sharp decline in foreign reserves due to the coronavirus pandemic and a currency crisis hammering the peso. "In the last quarter (of 2020) prices began to rise," said Emilio Apud, Argentina's former energy secretary, adding that supportive policies for oil and a freeze on natural gas prices in the domestic market have helped to push producers toward the unconventional oil.

Production in Vaca Muerta hit a record 124,000 barrels per day in December, according to data from consultancy Rystad Energy. Vaca Muerta, given its unusual name meaning the "dead cow" by a U.S. geologist in 1931, has taken 90 years to really get going, with its first export cargoes of liquefied natural gas in 2019 and oil last year. Producers are focusing on exports, with the oil moving up to 560 miles to the port of Puerto Rosales through a pipeline that can carry 157,000 barrels per day, with plans to expand the line to 220,000 this year and eventually to 415,000 barrels per day.

## Fewer U.S. LNG cargoes take the slow route to Asia

(S&P Global Platts; Feb. 8) - The number of long-haul LNG tanker voyages from the U.S. Gulf Coast to East Asia around the Cape of Good Hope at the southern end of Africa began to decline at the start of 2021, amid easing Panama Canal constraints and prohibitive incremental shipping costs, S&P Global Platts Analytics data showed. The slow-steaming was common last spring and summer when ultra-low prices were keeping tankers on the water longer in search of the best netback price for their cargo.

Prices for spot cargoes into northeastern Asia, while off their record highs in January, are strong enough to incentivize near-full utilization of U.S. liquefaction facilities. The Platts Japan-Korea Marker for March was assessed Feb. 8 at $7.615 per million Btu, more than four times the record low of $1.825 on April 28, 2020, when there was an average of twice as many slow-going LNG voyages via the Cape of Good Hope as now.

LNG tankers transiting around the southern end of Africa have dropped back to seasonal normal levels, with an average of two vessels making the voyage every five days in February so far. It was four vessels every five days in April 2020 when the Asia spot market hit its record low, and as high as more than one vessel a day as recently as November 2020, Platts Analytics data showed. A new monthly record was set in January for LNG tanker transits of the Panama Canal as U.S. shipments to Asia surged.

## North Dakota lawmakers try to resolve royalty deductions dispute

(Grand Forks Herald; ND; Feb. 8) - A group of North Dakota Republicans has proposed a bill that would force oil companies to pony up millions of dollars to royalty owners who believe they've been hoodwinked. At the heart of the bill lies a longstanding and oft-litigated conflict over the way oil firms pay out royalties. The companies say they are allowed to deduct from checks the costs of removing impurities and transporting oil and gas, but mineral owners argue they never agreed to that in the contracts they signed.

The bill, brought by Williston Republican Sen. Brad Bekkedahl, would prohibit companies from subtracting post-production costs unless the deduction is explicitly mentioned in the contract. The proposal also would prevent producers from passing financial losses on the natural gas side of the ledger to the mineral owners. Bekkedahl is joined in the legislative effort by five Republican co-sponsors.

Bob Skarphol, founder of the Williston Basin Royalty Owners Association, spoke in support of the bill during a Feb. 8 legislative hearing. The former Tioga lawmaker said his organization is not anti-oil, but the industry's deduction of post-production costs on royalties is "incorrigible." He said he understands that times are tough for oil firms in North Dakota, but the downturn is "doubly difficult" for many royalty owners. The dispute over post-production costs mirrors a disagreement between the state and oil producers, which has been the subject of several drawn-out lawsuits.

## Australia’s refineries cannot compete with foreign supplies

(Bloomberg opinion; Feb. 12) – If petroleum is going to save Australian manufacturing, why are the country’s refineries on their knees? ExxonMobil this week announced the closure of its plant in a Melbourne suburb after more than seven decades. From a point eight years ago when the country had seven refineries, that will leave just two. Of those, one is weighing whether to shut down. The other is staying in business thanks to a government subsidy of A$30 million ($23 million) in the first half of this year.

It’s not hard to see why this is happening. Despite its world-beating exports of coal and liquefied natural gas, Australia is seriously short of oil — and has been for most of its history, except for a blip in the 1980s when hydrocarbons from fields offshore and in the central deserts briefly brought self-sufficiency. These days, more than 80% of the nation’s supply depends on imports. In addition, much of the local production is of light, semi-gaseous condensates that are not suitable for transport fuel.

In this world, it makes less sense than ever to make gasoline, diesel, and jet fuel at Australia’s small, antiquated refineries. As a rule of thumb, the profitability of such a plant goes up with its complexity, with each additional distillation or cracking unit giving flexibility to make the mix of products the market wants. That, in turn, is a result of size. Exxon’s Altona plant, which can refine 80,000 barrels a day, can’t compete with large

Asian and Middle Eastern plants that handle 10 times as much. Combined with a long-run decline in transport costs, there's no reason for Australia to refine foreign oil.

## Alberta pumps an additional $400 million into well cleanup

(Reuters; Feb. 12) – Alberta, Canada's main oil-producing province, said Feb. 12 it will provide an additional C$400 million in funding to clean up inactive oil and gas wells, part of a program aimed at supporting oil field services jobs. The funding is on top of C$400 million Alberta made available for well cleanups last year, and comes from the federal government's COVID-19 economic stimulus spending.

Canada has said it will invest C$1.7 billion to clean up orphan and abandoned wells, helping maintain thousands of jobs. There are more than 94,000 inactive wells in Alberta, which has prompted widespread concerns across the political spectrum about environmental impacts and the cleanup cost. "This money is going to the service sector to create jobs, and at the same time it has the added benefit of site remediation and environmental cleanup," Alberta Energy Minister Sonya Savage told a news conference.

C$100 million of the funding will go toward cleaning up oil and gas sites in First Nation and Metis communities. The remaining C$300 million will go to oil and gas producers that paid for well closure work in 2019 and 2020. The announcement comes a day after British Columbia said it would make C$50 million available for its well cleanup program.