Oil and Gas News Briefs
Compiled by Larry Persily
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Developer gives up on Keystone XL oil pipeline

(The Wall Street Journal; June 9) - Canada's TC Energy and the Alberta provincial government said June 9 they would scuttle the Keystone XL oil pipeline project, bringing to an end a yearslong controversy over the effort to pipe more Canadian crude to the U.S. The decision had been expected after President Biden used his first day in office to revoke a key permit for the pipeline to cross the border, shutting down construction.

It marks a historic victory for environmentalists, who for a decade have made Keystone XL the focus of a campaign to block new pipeline construction as a way to limit oil consumption that contributes to global warming. TC Energy gave little explanation for its final decision in a news release. It alluded to Biden's decision and said it had completed a comprehensive review of its options before deciding to end the project. The provincial government had invested $1.1 billion in the project and will have to swallow the cost.

Emboldened by the successful fight against Keystone XL, protesters have taken aim at other Canadian oil pipelines. On June 7, protesters in Minnesota clashed with police as they demonstrated against Enbridge's construction of its crude oil Line 3 artery through the state. In Michigan, Democratic Gov. Gretchen Whitmer is trying to revoke a permit that allows the company to transport oil and natural gas liquids under the Great Lakes.

Biden's permit cancellation was a major setback for Canadian oil producers and the Canadian government, which had urged Biden to help salvage the $8 billion project. Keystone XL has been mired in court challenges and left in limbo by shifting U.S. political leadership since it was initially proposed in 2008. That was a time of record oil prices, and the pipeline was pitched as a key artery to eventually bring 830,000 barrels a day of crude from Alberta to Nebraska and then to refineries on the U.S. Gulf Coast.

Protests underway against pipeline rebuild in Minnesota

(The Associated Press; June 7) - Hundreds of protesters gathered at the headwaters of the Mississippi River in northern Minnesota on June 7, vowing to do whatever it takes to stop plans to replace an aging pipeline that carries oil from Alberta to Wisconsin. Environmental and tribal groups say Enbridge's plan to rebuild Line 3, which carries Canadian oil, would worsen climate change and risk spills in areas where Native Americans harvest wild rice, hunt, fish, gather medicinal plants, and claim treaty rights.

“This is important. This is what we need,” actress Jane Fonda told The Associated Press, motioning toward the crowd as she held signs with President Joe Biden’s image that said, “Which side are you on?” She earlier urged protesters to keep pressuring Biden to halt construction so his administration can study any harm to the environment and indigenous people. The Mississippi is one of the water crossings for the pipeline.

Enbridge says the 1960s-era pipeline is deteriorating and can run at only about half its original capacity. It says the new line, made from stronger steel, will better protect the environment while restoring its capacity and ensuring deliveries to U.S. refineries. Enbridge is gearing up for a final construction push on the line, which clips a corner of North Dakota to Minnesota and then to Enbridge’s terminal in Superior, Wisconsin.

The Canadian and Wisconsin replacement segments are already carrying oil. The Minnesota segment is about 60% complete. The company has said it plans to put the line into service late this year. Both sides are awaiting a ruling from the Minnesota Court of Appeals on a legal challenge by environmental and tribal groups that want to overturn state regulators’ approval of the project. The court is expected to rule by June 21.

Exxon board shake-up could mean changes in long-term strategy

(Reuters; June 9) - The recent overhaul of ExxonMobil’s board of directors could shift billions of dollars in spending and strategy over several years, but changes likely will take time, analysts and investors say. A quarter of directors last month lost their seats to outsiders, and the March appointment of activist Jeff Ubben puts a third of the 12-member board in new, more cost-conscious hands. Investors who rejected Exxon's view of a slow transition to lower-carbon fuels also want spending to be revisited.

Exxon's board has been a prestige post for former CEOs, typically without any energy experience. Critics said the practice led Exxon to miss industry shifts and play catch-up at the expense of its balance sheet. Exxon bought in to natural gas near its peak, leading it to reduce the value of properties in the United States, Canada, and Argentina by more than $19 billion last year.

New directors with energy experience likely will address Exxon's spending “far more vigorously,” said Anne Simpson, investment director at California Public Employees' Retirement System. Investors want a "fundamental rethink on strategy," she said, with the big question being Exxon’s $16 billion to $19 billion annual project spending. The shake-up puts in play billions of dollars in shale, LNG, refining and chemical projects.

"This is a call to reassess fundamentals of supply and demand for energy in the long term, and to question whether Exxon's current thinking around renewables gaining market share is too modest," said Stewart Glickman, analyst at CFRA Research. Still analysts do not see Exxon slashing its biggest ventures — offshore oil in Guyana and Brazil, or LNG in Asia and the United States — due to long-term commitments.

Oil trader sees OPEC+ in control as U.S. producers pull back

(Bloomberg; June 6) - OPEC+ appears in control of crude prices as U.S. production is lagging pre-pandemic levels, said a senior executive at the world's biggest independent oil trader, Vitol Group. The decline in U.S. drilling and output leaves little competition to efforts by the producers' group to manage markets, Mike Muller, Vitol's head of Asia, said at an online conference June 6. Brent crude closed above $70 a barrel last week for the first time in two years, as buyers demand more oil than producers are pumping.

U.S. oil producers are still employing only half the rigs they used before the coronavirus struck. Meanwhile OPEC+, led by Saudi Arabia and Russia, is easing barrels back on to the market as demand recovers. "There's a perception in the market that control is with OPEC+," Muller said at the event hosted by the consultancy Gulf Intelligence. "It will take a long time for U.S. oil to come back" to pre-pandemic production levels, he said.

The Organization of the Petroleum Exporting Countries and partners agreed last week to continue easing production restraints in July — but left markets guessing about what it will do the rest of the year. After cutting production by 10 million barrels a day, or a tenth of daily global demand, and even with some restored production, the group still has about 6 million barrels a day of idle capacity it could bring back to global supply.

Big Oil's geopolitical influence on the wane

(Financial Times; London; June 6) - The handshake between U.K Prime Minister Tony Blair and Muammar Gaddafi in the desert in 2007 was not just the moment the Libyan leader cemented ties with an old foe. It was also a stark symbol of Big Oil's role in foreign policy. BP sealed a significant exploration deal on the same trip, which capped its efforts to nudge the U.K. government to reestablish ties with the late North African dictator while opening access to huge hydrocarbon resources on Europe's doorstep.

The struggle for fossil fuels has influenced geopolitics for decades, from creating conflict and shaping relations between the west and Mideast to today's debate over the new gas line from Russia to Europe. But now the relationship between western oil firms and their governments is undergoing a dramatic shift as governments commit to going green and fossil fuels fall out of favor — a move that gathered pace in April as President Joe Biden convened an international summit to put pressure on countries to cut emissions.

Companies have cut investment in risky frontier exploration, fearing oil consumption could peak in the coming decade. And in countries where oil executives might once have played almost as big a role as ambassadors in managing relationships with foreign leaders, their influence is diminishing. Governments no longer want to be seen backing fossil fuel companies overseas while pushing a domestic agenda based on renewables.

“With the change in administration in Washington, I think we have probably seen the twilight of the U.S. government’s love affair with oil companies,” said Helima Croft, a former CIA analyst who runs commodity research at RBC Capital Markets.

State oil companies look to gain market share as supermajors retreat

(Bloomberg; June 8) - When ExxonMobil decided to get out of a big oil field in Iraq, the government took on the unusual role of salesman. Iraqi officials pitched West Qurna-1 to likely buyers from among Exxon’s supermajor peers. There weren’t any takers. That left Iraq with narrowed options: Sell to one of China’s state-backed oil majors, or else buy back Exxon’s stake itself. The sale process remains unresolved but either outcome would stand as a powerful indicator of what’s become of the global oil market.

With supermajors from the U.S. and Europe in retreat around the world, national oil champions are set to fill the void. The supermajors — a group that, in addition to Exxon, includes Chevron, BP, Shell, TotalEnergies, and Eni— are shrinking even while fossil-fuel demand holds strong. These companies are under growing pressure to pay down debt while cutting greenhouse gas and, for some, transitioning to renewable energy. National oil companies, or NOCs, are largely shielded from those pressures.

When the owners are governments, there aren’t dissident board members. That means state oil producers can be the buyers of last resort for fossil-fuel projects cast off by the shrinking supermajors. State companies can also gobble market share by producing oil that their private-sector rivals won’t. Saudi Aramco and Abu Dhabi National Oil Co. are spending billions to boost their output capacities by a million barrels per day each, and Qatar Petroleum is spending more than $30 billion to increase its liquefied natural gas exports by more than 50%. Taken together, NOCs make up just over half of today’s worldwide oil supply. By 2050, Rystad Energy sees that share growing to 65%.

Rosneft meets with potential contractors for massive Arctic project

(Reuters; June 7) – Rosneft has kicked off meetings with foreign contractors and suppliers for its massive Vostok Oil project, the Russian energy producer said June 7. It aims to begin shipping oil from the arctic project in 2024 via the Northern Sea Route, an alternative to the Suez Canal that shortens travels to the energy-hungry markets of Asia. Rosneft said it has met large contractors from Italy, Germany, China, South

Korea, and Japan as part of its road show, and will continue talks with potential contractors and suppliers in Europe and the Middle East.

Rosneft estimates the project's resources at 45 billion barrels of oil and plans to build three airfields, two sea terminals, a railway, some 50 vessels and facilities to generate 3,600 megawatts of power. Vostok Oil, in which global commodities trader Trafigura has a 10% stake, is one of Russia's biggest oil projects, comparable in size with the exploration of West Siberia in the 1970s or the U.S. Bakken oil region over the past decade. Rosneft has said it seeks to sell stakes in the project to more partners.

Report calls small-scale LNG projects ‘a growing segment’

(Financial Post; Canada; June 9) - LNG projects with double the capacity of current production levels are being planned across the world, but most will fall by the wayside, according to the International Gas Union. There are currently 892.4 million tonnes per year of “aspirational” liquefaction capacity in the pre-final investment decision stage, the IGU estimates, compared to the current capacity of 452.9 million tonnes per year.

“However, a large portion of the pre-FID projects are likely not to progress. Given the weak economic landscape in 2020, developers have pushed back on capital-intensive pre-FID liquefaction projects and reinstated their strategies,” the IGU said in its latest report on the global LNG industry. “This puts small-scale LNG in the spotlight as it remains a growing segment within the wider LNG sector with significant potential.”

The report comes as the role of gas in energy transition hangs in the balance, though major gas producers such as Russia and Qatar are pushing for gas to have a place in the energy transition to renewable energy. The uncertainty around LNG projects comes as trade volumes for LNG rose to a record last year led by Asia, though growth was marginal as demand was slammed by coronavirus-induced restrictions. Out of the LNG projects in pre-FID stage, the U.S. accounted for 39.4% (351.6 million tonnes), followed by Canada at 25.5%, Australia at 5.6% and Russia. Proposed LNG projects on Canada’s West Coast have a combined capacity of 179.3 million tonnes per year.

Calgary company buys stake in proposed floating B.C. LNG project

(Reuters; June 8) – Calgary-based Pembina Pipeline said June 8 it would buy a 50% stake in the proposed Cedar LNG project to develop a floating liquefied natural gas terminal in Kitimat, British Columbia, in partnership with the indigenous group The Haisla Nation. Pembina expects to invest about $90 million into Cedar LNG over the next 24 months, including costs to acquire the 50% interest in the project as well as development costs before the partners make a final investment decision.

Pembina said it will operate the project going forward. Haisla will own the remaining 50% stake. Cedar LNG, which will have liquefaction capacity of about three million tonnes per year, lies within the traditional territory of the Haisla Nation and plans to sell into Asia-Pacific markets. The estimated gross project cost is C$2.4 billion, and a final investment decision is expected in 2023. The floating operation, if built, would share Kitimat with the onshore, Shell-led C$40 billion LNG Canada project under construction.

Pembina had been working several years to develop an LNG export terminal in Coos Bay, Oregon, called the Jordan Cove Project, but recently put a postponement of the effort after losing in its quest for multiple state permits. Opposition to the development has been strong among residents in the Coos Bay area and along the route of the gas pipeline that would serve the liquefaction plant.

Indigenous group wants to buy Canadian oil pipeline

(Bloomberg; June 8) - Project Reconciliation, a Canadian indigenous group seeking a stake in the Trans Mountain oil pipeline, is now aiming for a path to full ownership, the group's new chairman said. "We are hopeful that we can get our position across," said Robert Morin, the group's new chairman. The group has said it has funding lined up for the purchase, without revealing any lender. Work is underway to almost triple the line's capacity to 890,000 barrels a day from Alberta to a British Columbia coastal terminal.

Canada's federal government bought Trans Mountain from Kinder Morgan for C$4.5 billion (US$3.7 billion) in 2018 after the company threatened to scrap the line's expansion amid fierce environmental opposition. Alberta's oil sands industry badly needs more conduits to export its crude, and many hope that indigenous participation would help quell objections to the project.

Prime Minister Justin Trudeau's government plans to sell the line after the expansion is completed, and is open to indigenous participation. Project Reconciliation is among several indigenous groups that formed more than two years ago to seek a stake in the oil line. Until now Project Reconciliation had sought no more than a 51% stake. Now it is seeking 75% with the option to eventually own 100% of the pipeline, Morin said. The group wants to use pipeline revenue to start a sovereign wealth fund to support Indigenous communities, which often suffer from higher levels of poverty.

Hot weather strains China's power supply; provinces ration electricity

(Bloomberg; June 7) - For the second time in six months, Chinese provinces are rationing electricity as the nation's power grids struggle to manage a surge in demand. This time it's partly because residents are blasting their air conditioners to keep cool during an unusually warm summer. Cities in Guangdong, a manufacturing hub in the south that’s home to 130 million people, have been limiting power use by factories since mid-May. Some plants have been forced to shut for several days a week.

On Weibo, a Twitter-like social media platform, business-owners complained about losing money and asked for patience from customers whose deliveries had been delayed. “Cutting the power three days a week is a death sentence to a factory,” said one user. “Now we have bought three giant generators and the whole industrial park smells of diesel.” It is the latest sign that Chinese authorities are having a hard time balancing the country’s climate goals with its economic development targets.

Along with the summer heat, an economic rebound led by exports and heavy industry is also causing a surge in power demand, just as new safety and environmental constraints lower production at coal mines that still help power large parts of the country. More unpredictable weather makes it difficult for utilities to gauge demand. Warnings that power will have to be rationed have also been issued in other areas. Shandong, a coastal province in the north with more than 100 million residents, said it will be short of as much as 6 gigawatts of power at peak times this summer.

Chinese major buys additional LNG to meet rising demand

(Reuters; June 9) - China's oil and gas major CNOOC has bought more than 10 additional liquefied natural gas cargoes for delivery between July and next March, trade sources said on June 9. The state-owned firm's purchase is on the back of higher spot LNG prices, which have doubled since early March, as China's gas demand grows with rebounding economic growth.

Price details could not immediately be confirmed, but one source said that August cargoes may have been awarded at about $10.70 to $10.80 per million Btu, while cargoes for winter delivery may have been awarded at a discount. Gas demand especially from the industrial sector in China has been strong due to an improving economic growth, traders said. "Demand is strong especially in the south where there is a general shortage for power which is boosting demand for both gas and coal," a source based in China said, declining to be named as he was not authorized to speak to media.

Several cities in China's southern province Guangdong, a major manufacturing hub, have asked industry to curb power use by suspending operations for hours or even days as high factory use combined with hot weather strain the region's power system. As a result, some provinces in southern China are seeing tight gas supply at gas-fired power plants, the Shandong provincial energy administration said last week.

Singapore company signs 10-year deal to buy LNG from BP

(Reuters; June 9) - Singapore's Pavilion Energy has signed a 10-year deal to buy liquefied natural gas from BP starting in 2024, the companies said on June 9, as the city-state seeks to diversify its gas supply sources. The long-term binding LNG sale and purchase agreement is for the supply of about 0.8 million tonnes of LNG a year to Singapore, Pavilion and BP said in a joint statement. They did not give financial details.

This is the third long-term deal that Pavilion, owned by Singapore state investor Temasek Holdings, has signed since November. The other two deals were with Chevron and Qatar Petroleum Trading. Singapore is trying to diversify its gas imports as its long-term piped-gas contracts with neighboring Indonesia start to expire from 2023.

As part of the deal, Pavilion and BP will also aim to jointly develop and implement a greenhouse gas quantification and reporting methodology, they said, adding that the methodology will cover emissions from wellhead-to-discharge terminal. When issuing a tender for LNG last year, Pavilion asked potential suppliers to outline their carbon-mitigation efforts because it aims to eventually make its purchases carbon neutral.

China’s latest move against small refiners could reduce oil imports

(Reuters; June 8) - Chinese authorities have ordered a unit of state-run PetroChina to stop trading its oil import quotas with local refineries as part of a crackdown on excess fuel production, a move that could cut the country's crude imports by 3%, sources said. Beijing has stepped up scrutiny of oil quotas and imports by state and private firms this year to ease a refined fuel surplus that has weighed on the sector's profits and led to additional emissions that have undermined China's climate goals, industry sources said.

PetroChina Fuel Oil is a major crude oil supplier to China's independent refineries. Without additional quotas they get from the company, crude purchases by the independent refineries, also known as teapots, will fall by 240,000 to 320,000 barrels per day, or roughly 3% of China's total crude imports, the sources said, forcing the firms to import fuel oil instead of refining the product itself.

China has in recent months unleashed several measures aimed at curtailing its bloated oil-refining sector--from examining illicit trading of import quotas to levying new taxes to curb unwanted fuel supplies. PetroChina Fuel Oil, which produces and trades fuel oil and bitumen, was ordered in April to stop reselling imported crude and trading quotas to half a dozen teapots, a practice the firm has engaged in for years. China has since 2015 allowed over 40 smaller plants to process imported oil to support private investment, but controls overall oil purchases using quotas to curb wasteful refinery expansions.

Oil sands producers form alliance to reach net-zero emissions

(Reuters; June 9) - Canadian oil sands producers said June 9 they would form an alliance to achieve net-zero greenhouse gas emissions from their operations by 2050, as the cash-rich firms come under pressure to meet the country's goal on energy transition. Oil sands producers, which extract some of the world's most carbon-intense crude, face investor pressure to reduce their environmental impact.

The alliance, which includes Canadian Natural Resources, Cenovus Energy, Imperial Oil, MEG Energy, and Suncor Energy, will work with federal and Alberta governments to help Canada meet its climate goals, the companies said. The country's oil sands producers are generating billions more in cash flow in a faster-than-expected pandemic rebound of oil prices, but have taken a cautious approach to spending the money that is disappointing environment-minded investors.

The companies said they would look to link oil sands facilities in the Fort McMurray and Cold Lake regions to a carbon-sequestration hub, use carbon-capture and storage technology, as well as clean hydrogen, fuel switching and other methods to reduce emissions. The companies will also tap into emerging emissions-reducing technologies including direct air capture and small modular nuclear reactors, among others.

Australia requires reduction in emissions for $11 billion gas project

(Australian Financial Review; June 8) - Woodside Petroleum will have to cut emissions at its Pluto LNG project by 30% by 2030 and reach net-zero by 2050 under conditions imposed by the Western Australian government for environmental approval for the proposed multibillion-dollar expansion. The ruling is based on advice from the Environmental Protection Authority and has been accepted by Woodside. It imposes the requirements on the existing liquefaction unit at Pluto in addition to the expansion.

It represents a significant ramp-up of emissions standards required from the levels approved in 2007. The ruling comes just months ahead of Woodside's target for giving the go-ahead for the Pluto expansion, which also involves the development of the offshore Scarborough gas field. Gas field development and LNG expansion at Pluto, which went online in 2012, are estimated at a combined $11 billion. Conservation groups have been ramping up their objections to the projects on the grounds of the huge volume of additional greenhouse gas emissions that they would generate.

Woodside is preparing for a final investment decision on the project by December. It said it would integrate a number of measures to reduce greenhouse gas emissions at Pluto "considered to be best practice for liquefied natural gas developments in Australia, implementing operational improvements and offsetting all reservoir carbon dioxide."

BP joins ranks of oil companies expecting continued strong recovery

(Bloomberg; June 7) - Energy giant BP sees a strong recovery in global crude demand and expects it to last for some time with U.S. shale production being kept in check, said CEO Bernard Looney. "There is a lot of evidence that suggests that demand will be strong, and the shale seems to be remaining disciplined," Looney told Bloomberg News in St. Petersburg, Russia. "I think that the situation we're in at the moment could last like this for a while."

Looney's comments echo those of other industry executives encouraged by a robust rebound from the pandemic in the U.S., China, and Europe. Igor Sechin, CEO of Rosneft, Russia's largest oil producer, said last week that growth in energy demand will continue, and that any new virus waves may slow the process but won't stop it. Mike Muller, head of Asia at trader Vitol Group, said June 6 that China's economic growth should help bolster demand, bringing down crude stockpiles.

Brent crude closed above $70 a barrel last week for the first time in more than two years, as mass vaccinations help to reopen some economies in the Northern Hemisphere and improve mobility and oil consumption. BP has added rigs to its shale business in the U.S. since scaling back last year, but its activity in the region remained below pre-pandemic levels in the first quarter of the year. Oil's global demand recovery will be at the point of maximum velocity this month and in July, and it may reach 100 million barrels a day by December, according to a report from Standard Chartered.

Strong recovery underway in U.S. oil and gas land sales

(Reuters analysis; June 7) - A recovery in the price of oil to more than two-year highs is offering a long-awaited opening to companies and private-equity firms to shed unloved assets in the U.S. oil patch. Sales of land worth $6.9 billion have been reported in the first five months of 2021, close to the $7 billion recorded in all of 2020, according to data vendor Enverus. Last year was the worst for U.S. acreage sales since at least 2006, after energy prices plunged due to coronavirus-related demand destruction.

More deals are on the way. Land worth more than $12 billion is either up for sale or being prepared to come to market in the U.S., according to more than a dozen industry sources and investment bankers. A 43% rise in U.S. oil prices this year to their highest since October 2018 has made unloved acreage desirable enough for a small group of buyout firms, as well as some publicly listed energy companies with money to spend.

The sellers are oil and gas exploration and production companies seeking to pay down debt and redeploy capital for new drilling, and buyout firms that are often nursing losses on bets that went sour. The sale of these properties could lead to their development, often following years of underinvestment, boosting U.S. energy output to meet growing demand. However, land in some western U.S. shale fields, such as the Utah's Uinta and Colorado's Denver-Julesburg, has drawn limited interest over regulatory concerns, including the Biden administration's halt on new drilling leases on federal land.

Citigroup sees 12% inflation for oil field services and supplies

(Bloomberg; June 6) - It's getting more expensive to drill in the shale patch as rising prices for steel, cement and other supplies and services lead to high costs for explorers, according to Citigroup. Inflation could reach 12% or more by the end of this year for the sector in North America, analysts including Scott Gruber wrote June 4 to investors.

Costs for everything from labor to diesel to steel have climbed in the oil field this year as explorers return to work following last year's pandemic-driven crash in crude prices. Steel prices for the drill pipe used in new wells could rise about 50% in 2021, Citigroup said. Oil production in the U.S. has remain subdued since last year's plunge, though the number of rigs drilling for crude and natural gas has almost doubled since reaching a nadir last August. Explorers, however, could tap the brakes on activity in the fourth quarter as they head into year-end price negotiations with contractors, Gruber said.

Service providers have found it difficult to raise prices in North America, where competition is fiercer than in international markets. It's one reason the world's oil field contractors are pivoting away from the U.S. and Canada in search of growth overseas.

Tankers parked in North Sea may be a sign of market uncertainty

(Bloomberg; June 7) - Here's something for oil bulls to consider as Brent crude trades near $72: Tankers are holding several million barrels of oil in the North Sea in what is normally an indicator of weak markets. Five tankers carrying about 6 million barrels have been floating off Europe for two to three weeks, according to ship-tracking data compiled by Bloomberg. As the market doesn't make economic sense for storage, the increase in floating barrels looks like a sign of weak demand, especially from Asia.

Meanwhile, supply is poised to rise. Loadings of five benchmark North Sea grades will increase by about 40% in July after the completion of maintenance on a major pipeline in mid-June. Cargoes on board the tankers include 5.4 million barrels of Forties crude, which is typically shipped to Asia, especially China's so-called "teapot" private refiners. The teapots have recently held back on purchases, partly because they have been waiting for the release of a second batch of government-issued import quotas for 2021.

Bidding activities for North Sea grades, which dominated the market a month ago, have dropped significantly since the new trading cycle of July-loading cargoes started last week, according to traders monitoring the pricing window of S&P Global Platts.