Oil and Gas News Briefs
Compiled by Larry Persily
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Bank of America joins others in forecasting possible $100 oil

(Bloomberg; June 21) - Oil may surge to $100 a barrel next year as travel demand rebounds, Bank of America said, the strongest call yet among major forecasters for a return to triple digits. Global oil consumption will continue to outstrip supply in 2022 as the economic recovery from the pandemic boosts fuel consumption, while investment in new oil production is crimped by environmental concerns, the bank said in a report.

“There is plenty of pent-up oil demand ready to be unleashed,” said Francisco Blanch, the bank’s head of commodities research. While other market-watchers, from trading house Trafigura to Goldman Sachs, have already said that oil could reach $100 again in the right conditions, the prediction from Bank of America is the firmest to date. If crude does return to triple digits, it will be the first time since 2014 before a flood of North American shale oil sent the market into a slump from which it has never fully recovered.

The increasingly bullish outlook for oil is adding to pressure on the OPEC+ coalition led by Saudi Arabia and Russia, which meets next week to consider reviving some more of the production it cut during the pandemic. While Riyadh has signaled it prefers to move cautiously, an ever-tighter world market could compel the alliance to open the taps a little. Prices have been further stoked this month as fellow OPEC member Iran fails to clinch an agreement to relieve U.S. sanctions on its petroleum exports.

Slow U.S. shale oil rebound will help OPEC+ manage the market

(Reuters; June 18) - OPEC officials heard from industry experts that U.S. oil output growth will likely remain limited in 2021 despite rising prices, OPEC sources said, giving it more power to manage the market in the short term before a potentially strong rise in shale output in 2022. Officials from OPEC's Economic Commission Board and external presenters met June 15, focused on U.S. oil output, the sources said. OPEC heard from more forecasters on the outlook for 2021 and 2022 at a separate meeting June 17.

While there was general agreement on limited U.S. supply growth this year, a source said 2022 forecasts ranged from growth of 500,000 barrels per day to 1.3 million. "The general sentiment regarding shale was it will come back as prices go up but not super fast," said a source at one of the companies that provided forecasts to OPEC. Shale output usually responds rapidly to price signals, and U.S. oil this week hit its highest since October 2018 at nearly $73 a barrel. But U.S. producers are still focusing on capital discipline and investor returns, rather than expanding supply, the ECB heard.

The ECB advises OPEC ministers and does not set policy. The lack of a large shale rebound could make it easier for OPEC and its allies, known as OPEC+, to manage the market. OPEC+ is gradually unwinding the record output curbs it made last year as demand recovers, and will meet to decide policy on July 1. "It looks like the shale oil genie is going to stay in the bottle for now," said the source at one of the companies that provided forecasts. "OPEC and Saudi Arabia have a lot of power at this time."

OPEC+ needs to bring back production to help economic recovery

(Bloomberg opinion column; June 19) - The oil market is rapidly shifting from a period of oversupply at the height of the pandemic to one of potential shortage. Producers that managed the slump now need to be diligent in managing the recovery. The producing countries in the OPEC+ group have done an amazing job at managing oil supplies as demand has crawled its way back from the biggest collapse in history. But as the story has switched from collapsing demand to recovery, it's now supply that is lagging.

That's partly because the OPEC+ producers want to keep draining stockpiles, deliberately pumping less than their customers are using to whittle away the excess inventory built up during their slow response to the onset of the pandemic. But it's also because oil companies aren't investing in new production. That's not yet a serious problem, but it could become one.

The OPEC+ countries have the capacity to raise output quickly, although maybe not by as much as we've been led to believe. Spare capacity is concentrated in just a few of the 23 countries, and the two biggest — Saudi Arabia and Russia — probably have less spare capacity than the numbers used in the production-cut deal indicate. OPEC+ is due to meet on July 1, and to continue meeting monthly thereafter. It will need to act to prevent oil prices from rising high enough to choke off the recovery.

U.S. crude storage tanks start to empty amid strong demand

(Bloomberg; June 18) - Crude storage tanks brimming a year ago when the pandemic grounded flights and kept cars at home are starting to drain at the main U.S. distribution hub, the latest sign of strengthening demand in the world's biggest oil-consuming country. For the first time since before the pandemic, empty tanks are being offered for lease at Cushing, Oklahoma, the delivery point for West Texas Intermediate oil futures.

At least 1.4 million barrels of storage is up for rental starting in July, for roughly 12 cents per barrel a month, said Steven Barsamian, chief operating officer at storage brokerage Tank Tiger. That's a stark contrast to at least 60 cents charged when there was little space left about a year ago. It's a dramatic turnaround from a market crash that saw traders storing unwanted crude in tankers at sea, and U.S. producers at one point having to pay for customers to take their oil last year.

Meanwhile, shale producers are sticking to their pledges to focus on balancing their books and boosting returns to shareholders, rather than increasing output. U.S. production is 15% below its peak, limiting flows to the storage center. Traders are rapidly draining their storage tanks to supply refineries. Empty tanks are typical of a market where demand is outpacing supplies and traders are getting a premium on the nearest deliveries, making it unprofitable to keep oil in storage. A year ago traders were storing as much oil as possible to wait for better prices.

China's investigation of private refiners could have wide implications

(Bloomberg; July 17) - The future of China's vast oil-refining industry may hinge on what government investigators find in the small seaside city of Panjin. This little-known energy hub about 300 miles east of Beijing has emerged as the focal point of a probe that industry insiders say could shift the balance of power from the private sector to the state and throw a wrench in the finances of some local governments.

At issue are the private refiners known as "teapots," which have steadily gained market share from state-owned giants since the country partially liberalized its oil industry in 2015. In April officials began probing teapots for suspected violations of tax and environmental rules. The investigation has recently escalated in Panjin with the arrival of senior officials from national tax and prosecution departments, according to sources.

Some refiners may face punishments such as losing access to imported oil, the people said. The question hanging over refiners, the cities where they operate and the global network of traders that supply them is how far the crackdown goes. The risk for teapots is that the probe spreads nationwide, forcing a retrenchment in other hub cities. While few expect a big impact on China's refining capacity or crude imports, some analysts say the six-year rise of teapots relative to state-run rivals may be coming to an end.

China's government has yet to comment on its motivations for the probe, but teapots have long been suspected of lax compliance on taxes. Many have also lagged behind state-owned peers on meeting emission targets, threatening the country's climate goals.

Gazprom plans development of large Arctic oil find

(The Barents Observer; Norway; June 17) - It took Russian oilmen almost 60 years to develop the Tazov field. When discovered in 1962, it was the biggest field recorded in all of western Siberia. But the structure of the deposit was complicated and it took more than half a century before the necessary technology was in place. According to

Gazprom Neft, the field holds as much as 3 billion barrels of oil and 8 trillion cubic feet of gas. When including the adjacent fields of Meretoyakhinskoye, Severo-Sambulskoye and Zapadno-Yubileynye, the resources exceed 8 billion barrels of oil.

"This huge project, in which we invest more than 150 billion rubles ($2 billion) by year 2030, will become the core of Gazprom Neft's new Arctic center for production," said the CEO of Gazprom Neft, Aleksandr Dyukov. The fields are located on the tundra near the shallow Tazov Bay. The wide waterway that connects the Taz River with the Ob Bay is considered environmentally highly vulnerable. The fish stocks are unique and at risk of extinction because of the expanding oil industry, researchers have previously said.

Floating LNG facility on schedule for 2022 start-up in Mozambique

(S&P Global Platts; June 17) - Italy's Eni is on track to start up its Coral South 1,438-foot-long floating LNG production facility offshore Mozambique in 2022, a company spokesperson said, despite the recent militant violence in the southeast African country. "We confirm that so far the violence in the north of Mozambique has not affected the Coral South project timeline and we confirm start-up in 2022 as per schedule," the Eni spokesperson said. The facility is planned for 3.4 million tonnes per year capacity.

Over 30 million tonnes per year of LNG capacity is under development as the country looks to join the ranks of gas exporters. However, there are fears the fledgling industry could be derailed by a growing Islamist insurgency. France's TotalEnergies in April declared force majeure on work at its onshore LNG project, pulling its workers off the job. For Eni, however, work is on schedule at Coral South, which will be Mozambique's first project to come online. The investment decision was made back in 2017.

The venture is based on the almost 16 trillion cubic feet of gas in the Coral field in Area 4 offshore Mozambique. In 2016, Eni and its partners signed an agreement with BP to take the entire volume of LNG to be produced by Coral South for over 20 years. The gas field was discovered in 2012. Eni and its partners closed on $5.7 billion in project financing in late 2017. In addition to Eni, the consortium includes Korea Gas, Portugal's Galp, and Mozambique partners. The floating LNG plant is being built in South Korea.

Wood Mac expects China to hold top LNG spot for 'years to come'

(Wood Mackenzie report; June 16) - For as long as most can remember, Japan has been the world's largest LNG market. The country's utilities and trading houses underpinned decades of LNG supply growth, signing long-term contracts that formed the bedrock of the industry. But nothing lasts forever, and with Japan's LNG demand in long-term structural decline, China will this year become the world's No. 1 LNG buyer.

After a lackluster 2020, Asian LNG demand firmly returned to growth in the first five months of 2021, with China the single biggest contributor. We now expect 11 million tonnes of demand growth from the country this year, meaning China will account for over half of the increase in global LNG demand forecast for 2021 and a little over one-third of global growth in 2022. With its LNG demand bolstered by clear policy support and strong gas-market fundamentals, China's top spot looks assured for years to come.

Heating and industrial gas demand have been key parts of the story, while rising electricity consumption is being driven by China's economic recovery. In the first four months of this year, gas-fired power generation jumped 14% year-on-year. Strong electricity demand has been a key driver for increased imports in southern China in particular, as gas provides the critical peak-shaving supply into that market.

Russian piped gas currently is the lowest-cost import option at the Chinese border, and we expect continued strong growth in Russian gas as cost-competitive supply grows. But it won't be enough to meet anticipated demand, and China will require significantly more imported LNG to sustain domestic growth. Given the country's fundamentals, China looks certain to remain the world's top LNG importer for many years to come.

LNG suppliers need to adjust to rising short-term demand in China

(S&P Global Platts analysis; June 18) - A new wave of LNG importers borne out of China's gas market reforms is the new growth opportunity in Asia's LNG market, but their limited procurement capability and prompt-demand requirements mean they are active only in the spot market. This complicates the marketing strategy of large LNG producers like Qatar, which are mainly looking to sign long-term contracts, often with rigid terms, with established customers that have firm downstream demand.

For dozens of China's new gas importers, incentivized by state-run China Oil & Gas Piping Network Corp., known as PipeChina, and its opening up of infrastructure access, visibility in procurement and downstream demand is much more spontaneous and short term, often limited to a few months. The scale of demand growth from these companies is significant with PipeChina granting about 6.4 million tonnes of LNG terminal capacity for third-party users for 2021, equal to almost half of China's annual demand growth.

Trading sources said a growing portion of China's LNG demand growth is expected to be met by short-term or spot supplies in coming years, from entities that are not large national oil companies, while the long-term market lags. As of mid-June, at least five Chinese companies had bought a total of 80 to 90 LNG cargoes for delivery up to March 2022, more than six times that in full-year 2020, traders said. To tap this short-term market, Qatar's gas exporters have recognized this and in recent years been more active in signing shorter contracts and bidding competitively in spot tenders.

LNG may help lower power costs in Mexico's Baja California

(Natural Gas Intelligence; June 18) - Baja California is a very long peninsula, but in economic terms, especially on its southern end, the flow of goods and services have made it seem like an island. Through the port of Pichilingue in the vicinity of La Paz, the region receives by sea all kinds of basic supplies, including fuels from Mazatlan, Topolobampo and Salina Cruz. From there, goods and fuels are distributed up and down the 621-mile strip that makes up Mexico's Baja California Sur.

Electricity in the area is consistently the most expensive in the country. In addition, the burning of fuel oil at the Punta Prieta power plant has been a source of complaints due to the effect of its emissions on the delicate desert environment around La Paz. As a result, for several years the Comision Federal de Electricidad (CFE) and the Energy Ministry have tried to extend the gasification of the electricity sector to Baja California Sur. The difficulties are related to the upfront capital involved.

Proposals have included bringing electricity directly from Mexico's West Coast through a submarine cable, building an underwater gas pipeline as a branch of the line that connects Topolobampo with Mazatlan, and seaborne liquified natural gas delivers. The CFE has contracted with NFEnergia, a subsidiary of U.S.-based New Fortress Energy, to supply gas for three years to six CFE generation units. The supply chain will include LNG ship deliveries to a floating storage unit for transfer to the onshore power plants.

Activists challenge Korean company's investment in new gas project

(Financial Times; London; June 17) - One of South Korea's biggest conglomerates is facing a backlash from activists after finalizing a large Australian liquefied natural gas deal months after promising to end new overseas oil and gas investments. The scrutiny of SK Group, one of Asia's top producers of oil, electric vehicle batteries, and computer chips, comes as activists turn their attention to overseas oil and gas projects in the wake of successful campaigns to stop companies and countries from investing in coal.

Environmental groups said SK's decision in March to spend $1.4 billion developing the offshore Barossa-Caldita field contradicts a pledge made in November to abandon new fossil-fuel investments. The promise by SK, Korea's third-biggest conglomerate, was part of a pivot to environmental, social and governance investments led by Chey Tae-won, its chair and biggest shareholder. Barossa-Caldita, the Timor Sea project being led by Australia's Santos, is expected to send LNG to South Korea for 20 years from 2025.

"The tremendous amount of greenhouse gas from the Barossa-Caldita project will raise serious doubts on SK Group's ESG initiative, and more importantly, it will undermine the global efforts to mitigate climate change by reducing greenhouse-gas emissions," said a letter sent to Chey by dozens of South Korean, Australian, and international groups.

SK's energy unit said the development would cut "nearly all" carbon emissions by using carbon capture and storage, a fledgling technology that traps carbon dioxide and pipes it into deep underground reservoirs, as well as through the purchase of carbon credits.

Indian LNG importer says a lot more supply needed over next decade

(Reuters; June 17) - The share of liquefied natural gas in India's gas consumption could rise to 70% from the current 50% in 10 years, although new import terminals are needed, the chief executive of the country's top gas importer said. Prime Minister Narendra Modi has set a target to raise the share of gas in the country's energy mix to 15% by 2030 from the current 6.3% to cut its carbon footprint.

To meet that target India's gas consumption needs to rise to 22.6 billion cubic feet per day from the current 5.5 bcf a day, A.K. Singh, chief executive of Petronet LNG, said at ET Energy Leadership summit. Indian companies are investing billions of dollars to strengthen gas infrastructure, including laying 9,000 miles of pipelines to supply cleaner fuel to households and industries. India has 10,500 miles of pipelines.

Also, LNG import projects of 19 million tonnes per year capacity are under construction, and plans are underway to increase use of LNG in trucks and buses. "With limited increase in domestic gas supply, (imported) LNG will play a major role in catering to this incremental demand, and the share of LNG in natural gas consumption is likely to increase from present 55% to 70% in the coming 9 to 10 years," Singh said.

New airport opens for Russia's Arctic LNG-2 project

(The Barents Observer; June 18) - A propeller plane from airline Utair landed June 17 at the Utrenneye airport in Russia's far northern Gydan Peninsula. It was the first ever to land in the new airstrip built for small and medium-sized planes. The airport is a key piece of infrastructure built as part of Novatek's natural gas project, Arctic LNG-2. The airport will significantly improve Novatek's capability to bring workers to and from its construction site on the banks of Ob Bay. Until now people involved in the project have been brought to the area by helicopter from Sabetta, the industry town in nearby Yamal.

The airport can handle aircraft of up to 74-passenger capacity. Several thousand people are working on Arctic LNG-2, due to be ready for operation 2023-2024. The project includes the building of a major seaport and terminal that will house the gravity-based production platform being built in Belokamenka, near Murmansk. At full build-out, the LNG terminal is planned for almost 20 million tonnes per year capacity.

Arctic LNG-2 is Novatek's second project in the Arctic. It follows Yamal LNG, that was launched in late 2017. The capital investment is estimated at $21.3 billion. Novatek's partners include TotalEnergies of France along with Chinese and Japanese companies.

Australia looks to promote offshore carbon sequestration

(Reuters; June 16) - Australia asked companies June 16 to nominate offshore acreage they want to explore for places to bury carbon dioxide, part of a government drive to promote carbon capture and storage to help cut emissions. "The coalition government is keen to accelerate the development of (CCS) projects, and offshore greenhouse-gas storage offers a perfect investment opportunity," Resources Minister Keith Pitt said.

The last time Australia released offshore acreage for carbon capture and storage was in 2014. Companies can nominate areas in federal waters, which start three nautical miles offshore, where they want to explore for storage locations, with nominations due in July and the acreage open for bidding in December. Australia is already home to the world's biggest commercial-scale CCS project at the Gorgon liquefied natural gas project, where Chevron is injecting carbon dioxide under Barrow Island off Western Australia.

The call for CCS nominations came the day after the government sought bids on oil and gas exploration acreage despite the International Energy Agency's warning last month that there should be no new fossil-fuel investments if the world is to achieve net-zero emissions by 2050.

Oil traders expect to profit in pollution-credits market

(Bloomberg; June 16) - The world's largest oil traders are gearing up to profit from buying and selling pollution permits, a market that could become bigger than crude as global leaders seek to limit the impact of climate change. The global carbon market has the potential to be 10 times the size of crude oil trading, said Hannah Hauman, global head of carbon trading at Trafigura Group, the second-largest oil and metals trader.

Hedge fund Andurand Capital — known for its fossil-fuel bets — expects the cost of polluting to double before some new emissions-cutting technologies kick in. Oil traders including Vitol and Trafigura, as well as hedge funds, have been building up trading desks to profit from one of the hottest commodities trades of the year. Traders are bracing for tighter supplies as the European Union is preparing for the market's biggest reform to date to align emissions trading with a stricter climate goal for the next decade.

Carbon prices in the European market, the world's largest, have surged this year to over 50 euros ($60) a tonne. Costs could rise further as EU reforms expected next month are set to accelerate the pace of emissions reductions, boosting the scarcity of permits. Michael Curran, head of emissions trading at Vitol, expects spikes in carbon prices this summer with futures reaching 75 euros a tonne in the third quarter. About 11 billion tonnes of carbon are currently covered by regulated traded markets, Hauman said.

Australia LNG industry accepts carbon pricing in its future

(Reuters column; June 16) - Australia's liquefied natural gas sector is changing from an industry that was vociferously opposed to any form of carbon taxes or trading to one that views a price on emissions as vital to its future. The 180-degree change in attitude has happened rapidly and comes as the world's biggest producer of the fuel grapples with how it's going to adapt to a carbon-constrained future, where it will likely have to achieve net-zero emissions in order to survive.

The annual gathering of the Australian Petroleum Production and Exploration Association (APPEA) event this week in Perth found an industry that has, perhaps belatedly, realized that the time available to embrace the challenges of climate change is becoming very short. Perhaps wary of what has happened to the coal industry, which is struggling to attract financing, insurance, quality shareholders, and young, skilled workers, the LNG sector is seeking to stay in business for the long term.

This means embracing net-zero emissions targets and pivoting away from heavy carbon emissions in gas production and the energy-intensive process of liquefaction. And it means accepting carbon credits as the cost of doing business, putting a price on carbon emissions in order for the plans to be economically sustainable. The federal government, however, opposes putting a price on carbon. The LNG industry argues it would be better for Australia to impose its own pricing and keep the money inside the country, rather than pay it to foreign governments that attach the price to imports.

Colorado plans to boost bonding requirement to cover well clean-up

(The Colorado Sun; June 17) - Colorado oil and gas regulators looking to avoid a rash of abandoned and unplugged oil and gas wells are proposing to boost financial guarantees required of operators for each of their wells — a price tag that could add up to billions of dollars. The draft financial assurance regulations, released by the Colorado Oil and Gas Conservation Commission, cover all 50,000 oil and gas wells in the state and in general require a full-cost-of-plugging guarantee of $78,000 for each of a company's wells.

Under current requirements, an operator has to post a bond of $10,000 for each well shallower than 3,000 feet and $20,000 for wells deeper than 3,000 feet or a statewide blanket bond of $60,000 for fewer than 100 wells or $100,000 for 100 or more wells. The proposed rules are scheduled for 17 days of hearings in September and October with the regulations going into effect in January. The rules would also charge companies an annual fee of $200 a well to raise $10 million a year to deal with orphan wells.

The rules take particular aim at what the commission sees as the greatest risk of abandonment: the state's inactive wells — those shut-in, temporarily abandoned, or producing less than a barrel of oil a day, as well as low-producing wells yielding less than five barrels a day. At the heart of the issue is the question of how great a risk these wells pose and whether there are adequate funds to ensure sites are clean and wells are plugged. The industry maintains that the orphan-well problem is small in Colorado.

Arrests continue at oil pipeline protest site in Minnesota

(ABC News; June 17) - Opponents of the Enbridge Energy Line 3 oil pipeline project in northwestern Minnesota continued their protests this week by disrupting traffic in front of an Enbridge equipment site, leading to 31 arrests. Hubbard County Sheriff Cory Aukes said it began about 7:30 a.m. June 15 when a van pulled in front of a semitrailer and forced it to stop on a highway. One woman crawled under the semi and attached herself to the rear axle and another person clipped on to an item atop the trailer, Aukes said.

Several carloads of protesters arrived and gathered on the side of the roadway, at which point Aukes said they were told by deputies they were breaking Minnesota's public nuisance and unlawful assembly laws. Aukes said deputies began arresting demonstrators after they began "yelling vulgarities, being a traffic hazard, and refusing to leave." The protesters were brought to the county Jail, where they were charged with public nuisance, unlawful assembly, and disorderly conduct, Aukes said.

At least 1,000 activists from across the country gathered at construction sites near the headwaters of the Mississippi River last week. Nearly 250 people were arrested. The Line 3 replacement would carry Canadian oil sands and regular crude from Alberta to Enbridge's terminal in Superior, Wisconsin. The project is nearly done except for the Minnesota leg, which is about 60% complete.

Bitcoin miners get electricity from Bakken gas

(Montana Free Press; June 17) - On an oil pad not far from the North Dakota border, the pumpjacks of the Bakken oil field pull hydrocarbons from thousands of feet deep beneath the eastern Montana prairie. A flare stack and multi-story storage containers stand along the perimeter, along with a sign announcing the site's owner, Houston-based Kraken Oil & Gas. On the far side of the pad, though, a line of metal buildings set up by a Colorado start-up represents a nontraditional arrangement for the oil industry.

Humming generators wire electricity to a handful of squat boxes that look like a cross between shipping containers and hot dog stands. Inside, behind a tangle of power cords and networking cables, a full wall of each container is packed with high-tech computing equipment, powerful servers chugging away to put gas produced as a by-product of oil production to use on an entirely different extraction: mining digital cryptocurrency.

“Instead of burning it, we try to bring something to the site so we can use it and create something beneficial,” said Bruce Larsen, Kraken’s president. The server containers on the Kraken well site are owned by Denver-based Crusoe Energy Systems, a venture-capital backed start-up founded in 2018 that markets itself as a partner for oil companies looking for an economical way to cut back on their gas flaring. In eastern Montana, Crusoe buys otherwise stranded gas from Kraken, pipes it into the onsite generators, and uses the resulting power to run computers that mine Bitcoin.

U.S. task force recommends more study of LNG by rail

(Natural Gas Intelligence; June 17) - A task force examining the safety of moving liquefied natural gas by rail across the United States said the fuel has been transported safely by sea and road for decades, as well as by rail in other countries, but the group said more research is needed. The task force was convened by the National Academies of Sciences, Engineering and Medicine at the request of Congress. Early research found no reports of major safety incidents in countries actively transporting LNG by rail.

However, the researchers noted that the U.S. rail network is far more expansive and uses heavier, larger cars carried on longer trains. Overseas LNG is also largely moved in smaller containers. “In general, it appears that LNG has been moving without major incidents in the handful of countries,” the task force said in the first phase of its report. The study noted that countries currently moving LNG by rail, including Germany, Japan, Portugal, and Spain, don’t always record safety incidents by commodity type.

In the U.S., transporting LNG by rail was not authorized until last year, when federal regulators issued a rule for its transport in specialized rail cars. Rail carriers petitioned the government in 2017 to transport the fuel as gas production increased and demand grew in areas outside of pipelines. The rule is contentious, given safety concerns over the fuel’s flammability and handling. The task force also said it plans to conduct a safety and security risk assessment of route options under consideration for moving LNG from shale fields of northeast Pennsylvania to a proposed export terminal in New Jersey.