

# Oil and Gas News Briefs

## Compiled by Larry Persily

### May 20, 2021

#### **Now both partners want out of Kitimat LNG in British Columbia**

(Vancouver Sun; May 18) - The proposed Kitimat LNG project in British Columbia seems doomed with both joint-venture partners now wanting out. On May 18, Australian energy giant Woodside Petroleum said it wanted to divest its half of the project, including its stake in the proposed gas pipeline from the Liard Basin gas field straddling the Alberta/British Columbia border. The news came a month after Chevron — Woodside's joint-venture partner — said it would not spend any more money on the project. Chevron has been trying to sell its share of the project since December 2019.

Both have lost huge amounts of money on the idea of joining British Columbia's LNG push with Chevron writing off \$2.2 billion as an asset impairment against the project, and Woodside writing down its stake by \$720 million in 2019. Woodside CEO Meg O'Neill said the company would keep its Liard Basin gas assets. "Retaining an upstream position in the prolific Liard Basin provides Woodside a low-cost option to investigate potential future natural gas, ammonia, and hydrogen opportunities in British Columbia."

Encana, EOG Resources, and Apache embarked on the Kitimat LNG project more than a decade ago, looking to make a final investment decision for construction by 2012. EOG and Encana later sold out to Chevron, and Apache sold to Woodside in 2014. The C\$32 billion development was planned for up to 18 million tonnes per year of output capacity. After multiple LNG export projects on the British Columbia coast failed to reach an investment decision in the past decade, only the C\$40 billion Shell-led LNG Canada project, also in Kitimat, is under construction with a 2025 start-up expected.

#### **Qatar's LNG expansion makes it harder on North American projects**

(Reuters; May 18) - This week's decision by Australia's Woodside Petroleum to pull out of a big Canadian liquefied natural gas project was the latest blow to a sector that had been heralded for its growth prospects worldwide. Demand for LNG surged in recent years as large energy-consuming nations like China and India wean themselves off dirtier coal. Demand for LNG is expected to keep hitting fresh highs, but three North American projects have stopped development in the past few months as customers remain hesitant to sign the long-term purchase agreements needed for financing.

LNG terminals, where gas is cooled into a liquid for shipping, take roughly four years to build. Investors in new projects are wary of oversupply after Qatar Petroleum, the

world's biggest and lowest-cost LNG producer, announced massive expansion plans in February. To be sure, there are still a dozen North American projects that could decide to kick off construction later this year. But that's no different from 2020 and 2019, when numerous projects were delayed or killed. Only one project started construction in 2020.

"With the Qataris adding more capacity at a very cheap cost, it does not make financial sense for U.S. companies to be building greenfield projects," said Matt Smith, director of commodity research at ClipperData. He said it makes more sense to expand sites with existing terminals. "Given the Qataris decision to move forward," boosting annual capacity from the existing 77 million tonnes of LNG to 126 million by 2027, "the global LNG markets appear poised for another period of oversupply," which may be dissuading buyers, said Ross Wyeno, lead analyst of Americas LNG at S&P Global Platts.

## **Bank financing of renewables in 2021 outpaces fossil fuel projects**

(Bloomberg; May 19) - In more than five years since the world agreed to limit global warming, banks have poured more than \$3.6 trillion into fossil fuel — almost three times more than bonds and loans backing green projects, according to Bloomberg data. Now this disparity favoring oil, gas and coal producers might be at an end. Green bonds and loans from the global banking sector exceed the value of fossil financing so far this year, an unprecedented reversal since clinching of the Paris Agreement at the end of 2015.

Bloomberg data covering almost 140 financial-service institutions worldwide shows at least \$203 billion in bonds and loans to renewable projects and other climate-friendly ventures through May 14, compared with \$189 billion to businesses focused on hydrocarbons. "We may well be at a powerful tipping point," said Tim Buckley, a clean-energy investor who spent nearly two decades at Citigroup. "Finance will only lead when the numbers make sense."

The long wait for finance to ditch major sources of planet-warming pollution has left the sector open to criticism. By taking fees for underwriting fossil fuels, banks appeared to be prioritizing short-term profits over climate goals. Banks have pocketed an estimated \$16.6 billion from arranging bonds and loans for energy companies since the Paris announcement — more than double the \$7.4 billion from green bonds and loans.

U.S. banks dominate this corner of the debt markets. JPMorgan Chase ranks as the top financier to energy firms, having helped extend over \$256 billion of bonds and loans since the start of 2016 in return for fees near \$900 million. Citigroup, Bank of America, and Wells Fargo are the next largest advisers to corporate emitters, based on fees.

## **Oil industry 'fitter and leaner than ever,' says Wood Mackenzie**

(Reuters; May 20) – Global energy consultancy Wood Mackenzie said the oil-and-gas sector will generate as much cash flow this year at \$60 per barrel as it did at \$100 before the 2014 price crash. “After six years of weaker prices, upstream is fitter and leaner than ever,” Wood Mackenzie said May 20. However, the global energy transition is creating uncertainty for an estimated \$14 trillion worth of oil and gas assets that have long depended on an indefinite rise in demand to offset risks, the company said.

While the industry has enjoyed a century of near continuous demand growth, it now finds itself having to supply oil and gas to a world in which future demand and price are highly uncertain, Wood Mackenzie vice president Fraser McKay said. “The range of possible outcomes is dizzying.” A gradual energy transition would see oil demand staying above 90 million barrels per day to 2050, encouraging investment in costlier supplies and supporting prices at just above \$80 a barrel by 2030, Wood Mac said.

However, if the world decides to limit global warming, oil demand would peak before 2025 and fall toward 35 million barrels per day by 2050, 70% below its record. Brent would average \$40 by 2030 and decline after that. Despite stark warnings from the International Energy Agency to halt funding for oil, gas, and coal projects if the world wants to reach net zero emissions by 2050, Wood Mac said, “The world will still need oil and gas for decades to come, and the scale of the industry will remain enormous.”

## **European lawmakers call for stop to financing Arctic LNG**

(Reuters; May 19) - A group of mostly Green Party lawmakers from the European Parliament on May 19 urged the leaders of Germany, France, and Italy not to support a Russian Arctic liquefied natural gas project due to climate change concerns. The \$21 billion Arctic LNG-2 project, led by Russian gas producer Novatek and with international backers including French oil major Total, is expected to start production in 2023 and reach full LNG production capacity of almost 20 million tonnes a year in 2025.

The lawmakers’ call comes a day after the International Energy Agency said all investments in new fossil fuel projects must cease if the world is to cap global warming in line with the goals of the Paris Agreement. In a letter to the French, German, and Italian governments, 39 lawmakers of the roughly 250 from those countries in the European parliament called for shelving any plans to finance the Arctic LNG project.

Marie Toussaint, one of the signatories, told Reuters the project was “an ecological, economic and social aberration and must be stopped immediately.” Reuters reported in September that French, German, and Italian state-backed international lenders are considering providing about \$9.5 billion in financial support for the project.

## **Gas-fired plant operator doesn't want to be the next Blockbuster**

(The Wall Street Journal; May 16) - Vistra owns 36 natural gas power plants, one of America's largest fleets. It doesn't plan to buy or build any more. Instead, it intends to invest over \$1 billion in solar farms and battery storage units in Texas and California as it tries to transform its business to survive in an electricity industry being reshaped by new technology. "I'm hellbent on not becoming the next Blockbuster Video," said Vistra CEO Curt Morgan. "I'm not going to sit back and watch this legacy business dwindle."

A decade ago gas displaced coal as America's top electric-power source as fracking unlocked cheap quantities of gas. Now, in quick succession, gas finds itself threatened with the same kind of disruption, only this time from cost-effective batteries charged with wind and solar energy. Gas-fired electricity represented 38% of U.S. generation in 2019, and it supplies round-the-clock electricity as well as bursts during peak demand.

Meanwhile, wind and solar have gained market share. As battery costs fall, batteries paired with green power are beginning to store more inexpensive energy and discharge it after the sun falls or the wind dies. Battery storage remains less than 1% of America's electricity, but the combination of batteries and renewables is threatening to upend billions of dollars in gas investments, raising concerns that power plants built in the past 10 years — financed that they would run for decades — will become "stranded assets."

Duke Energy, based in Charlotte, N.C., supplies electricity and gas in seven states. It is still looking to build additional gas-fired plants but has started to think that they might need to pay for themselves sooner because they might not be able to run for as long.

## **Gas cleaner than coal, but that doesn't end the debate over emissions**

(E&E News; May 17) - Major energy financiers are backing away from coal projects as pressure grows to meet global climate targets. But investments in gas continue to rise, stirring debate about whether the world is shifting away from fossil fuels fast enough to prevent dangerous warming. Abandoning coal is becoming common as nations like South Korea, a major coal funder, commit to halting investments in overseas projects.

The latest move comes from the Asian Development Bank, which has a draft policy that proposes ending financing for new coal power plants and mining. It also would end lending for oil and gas exploration, drilling, and extraction. But the bank will consider financing gas projects under certain conditions, such as backup for renewable energy.

Natural gas possesses a cleaner image than coal, fostered by its release of less emissions. But the battleground over fossil fuels is shifting, and gas is increasingly being seen as a threat to global climate goals. Nevertheless, continued funding for gas has exposed tensions in moving to a zero-emissions economy, with many utilities saying solar and wind remain unreliable and electricity storage is still too expensive.

At a global level, some development groups and political officials argue that countries still striving to provide basic electrification shouldn't be prohibited from using gas as an option to higher-emitting fuels like coal. They say gas can be part of a just transition.

## **IEA says drastic steps needed to avert harmful climate change**

(Bloomberg; May 18) - The world has a choice — stop developing new oil, gas and coal fields, or face a dangerous rise in global temperatures. That's the bold assessment from the International Energy Agency, the organization that has spent four decades working to secure oil supplies for industrialized nations. In its new road map for net-zero global carbon emissions by 2050, the IEA on May 18 laid out in stark terms what the world must do to avoid harmful climate change — and just how far it is from our current reality.

Annual energy-efficiency gains must be three times faster over the next decade. New photovoltaic panels would have to rival the size of the world's biggest solar park every day until 2030. Within three decades, the role of fossil fuels should drop from 80% of global energy needs to barely a fifth by mid-century. "Our road map shows the priority actions that are needed today to ensure the opportunity of net-zero emissions by 2050 — narrow but still achievable — is not lost," IEA Executive Director Fatih Birol said.

Spending on new oil and gas projects needs to end immediately, although investment in existing reservoirs could continue, the IEA said. No new coal-fired power plants should be built unless they include technology to capture their emissions. Sales of new cars with internal combustion engines would have to end by 2035, with the role of electric vehicles expanding from 5% of the global fleet today to 60% by 2030, the IEA said. Given all that, oil demand should plunge by 75% to 24 million barrels a day in 2050.

Oil and natural gas output would become increasingly concentrated in a small number of low-cost producers, largely in the Organization of Petroleum Exporting Countries and the politically volatile Middle East, the IEA said. Yet falling prices would mean the fiscal budgets of these producer nations would still come under additional strain.

## **Finland buys less Russian crude as it turns to green energy**

(Reuters; May 17) - Finland, one of the major buyers of Russian oil, has been gradually decreasing its purchases of Urals crude as the nation turns from fossil fuels to green energy, traders said and Refinitiv Eikon data showed. The country's main refiner Neste Oil runs mostly Urals crude as the short distance from Russian Baltic ports to Finnish sea outlets makes for low transport costs.

Finland's imports of Urals-grade oil fell by a quarter in January-March of 2021 year-on-year, according to Refinitiv Eikon data. In April, purchases fell to just 3 million barrels compared to 8 million barrels imported in April 2020. At the end of March Neste Oil converted one of its two operating refineries in Finland to a storage facility, while its other refinery cut production due to a major restructure to develop it toward co-processing renewable and raw materials.

Finland's purchases of Urals oil were already declining last year as Neste transformed itself from a regional oil refinery to become, according to the company, "a global leader in renewable and circular solutions." Urals oil exporters that are used to Finland as a large buyer will have to find customers elsewhere, while the value of the Russian grade may suffer from less demand from the northern European state, traders said.

### **Shell says Nigeria operations not compatible with its green ambitions**

(Bloomberg; May 18) - After half a century of pumping oil out of Nigerian swamps, Shell acknowledged that its spill-prone operations there aren't compatible with its plans to go green. The company has been gradually selling onshore assets in the West African country for more than a decade, as it sought to put aside chronic problems such as pollution caused by ruptured pipelines and the resulting legal battles with communities.

The issue has become more acute in the past year after Shell pledged to transform itself into clean-energy giant and gradually wind down its oil and gas business to achieve net-zero carbon emissions by 2050. "The balance of risks and rewards associated with our onshore portfolio is no longer compatible with our strategic ambitions," CEO Ben van Beurden told investors at Shell's annual general meeting on May 18. "We cannot solve community problems in the Niger Delta," and the company has started discussions with the government on how to move forward, he said.

Van Beurden didn't explicitly say Shell wants to sell the remainder of its assets in the Niger Delta, nor did he provide a timetable. Yet a full retreat would be an obvious end point to years of gradual divestment. Shell has reduced its onshore licenses in Nigeria by half over the past decade. One of its deals is the subject of litigation. Aiteo Eastern, a Nigerian company that bought a major oil line from Shell six years ago, is demanding billions of dollars in damages. It claims Shell misrepresented the condition of the line.

### **Novatek expects to complete all 3 trains at Arctic LNG-2 by 2025**

(S&P Global Platts; May 17) - Russia's Novatek plans to start up the third train at its Arctic LNG-2 project in 2025, CEO Leonid Mikhelson said May 17, earlier than previous guidance of 2026 for the \$20 billion facility planned at 19.8 million tonnes annual capacity. Mikhelson told President Vladimir Putin during a meeting at the Kremlin that

the schedule for the project, which is currently under construction, had not been effected by the coronavirus pandemic.

"Previously, we planned the third train in 2026, but now the trains will be launched in 2023, 2024 and 2025," Mikhelson said, according to a transcript of the meeting posted to the Kremlin website. Each of the three trains at Arctic LNG-2 will have a production capacity of 6.6 million tonnes per year. In April the partners in the project all concluded 20-year deals to take LNG from the plant.

Novatek has a 60% stake in Arctic LNG-2, with the remaining shareholders comprising France's Total (10%), China National Petroleum Corp. (10%), China National Offshore Oil Corp. (10%), and a consortium of Japan's Mitsui and JOGMEC, called Japan Arctic LNG, with the final 10% stake. Arctic LNG-2 is Novatek's second major LNG export facility after the Yamal LNG plant, which started up in 2017 and is rated at 16.5 million tonnes per year, though Mikhelson said Yamal LNG was operating at 114% of capacity.

### **Company plans to convert jack-up drilling rigs into LNG plants**

(Maritime Executive; May 17) - Natural gas equipment, infrastructure and logistics company New Fortress Energy has purchased two Maersk Drilling jack-up rigs and said it plans to convert them into mobile natural gas liquefaction plants. In an all-cash \$31 million deal, New York City-based New Fortress bought the laid-up rigs Maersk Guardian and Maersk Gallant for refitting for its "Fast LNG" concept.

The company's new approach to offshore gas field development follows on floating LNG projects of the previous decade, but uses a jack-up platform to carry the liquefaction equipment instead of a floating hull. At 1.4 million tonnes per year liquefaction capacity each, the Fast LNG platforms will be smaller than the floating LNG facilities of the past. A moored storage unit will serve alongside the platform.

The objective is to create an offshore liquefaction capability that can be deployed "anywhere there is abundant and stranded natural gas," New Fortress said. The Maersk Guardian was delivered in 1986 and has been warm-stacked in Denmark since last year. Maersk Gallant was delivered in 1993 and has been cold-stacked in Scotland since 2017. During a May 7 earnings call, New Energy CEO Wesley Edens said converting the jack-up rigs can be done at a total cost of \$500 million. The rigs will be converted by July 2022 and start production by the end of next year, the company said.

### **More U.S. LNG may have to take the expensive route to Asia**

(Argus Media; May 14) - Growing U.S. liquefaction supply has outstripped the capacity of the Panama Canal, which is the quickest and lowest-cost route to northeast Asia for

exports from the world's largest spot-market supplier. But with growing Asian demand on course to exceed available supply within the Pacific region, more buyers are likely to become increasingly reliant on long-range deliveries, which means they will be poised to pay higher premiums for LNG cargoes to cover the additional freight costs.

The U.S. is already capable of loading around 90 cargoes a month, following the commissioning of a third liquefaction train at Cheniere Energy's Corpus Christi, Texas, plant. This could rise to just over 100 cargoes a month by this time next year, with additional liquefaction capacity under construction on the Gulf Coast. But there is a limit to how many of these cargoes can take the canal's direct route to northeast Asia.

If more tankers need to be sent along longer routes to northeast Asia through the Suez Canal, or around the Cape of Good Hope, then the additional journey times involved would tie up tankers for longer and drive up freight prices. Sailing from the U.S. Gulf Coast to South Korea is a 52-day round trip using the Panama Canal for both legs of the journey, but rises to 63 days if the laden leg is around the Cape of Good Hope and 76 days if both legs pass around the cape. A Suez Canal round trip takes 72 days.

### **BP and Eni consider merging their Angola operations**

(Bloomberg; May 19) – U.K.-based BP and Rome-headquartered Eni are considering merging their Angola oil, gas, and liquefied natural gas assets into a joint venture in a bid to revive output following years of decline. The two energy giants have signed a non-binding agreement to discuss combining their upstream portfolios in the West African nation. That could be a boon to the country's beleaguered oil industry, which has seen production slump by more than a third since 2015 amid under-investment.

The companies' Angola assets together produce more than 200,000 barrels of oil equivalent a day, BP and Eni said in a statement May 19. Merging them would bring "significant opportunities" to "boost future developments" and increase investment in the basin, they said. The proposal is subject to governmental and partner approvals. Vendors have been appointed to raise finance for the plans, the companies said.

Some of BP's biggest finds in the past decade have been in Angola, but several of them — such as the Katambi gas discovery — were subsequently relinquished after the company determined they weren't commercial. Both BP and Eni hold an interest in Angola's LNG plant, which started operations in 2013.

### **'Cradle of China's oil industry' now just a dying old town**

(Bloomberg; May 17) - In a town on the edge of the Gobi Desert is a sign in English and Chinese that reads "Oil Holy Land." Nearby, a preserved drilling rig marks the spot of

China's first commercial oil well. All around are abandoned buildings, their rooms littered with trash, torn wallpaper, and broken furniture and smashed windows. This is Yumen, "the cradle of China's oil industry," that has become a sign of China's changes over the past four decades — from a time of sacrifice and ideology to entrepreneurs and the pursuit of wealth, from the old economy to the new, from fossil fuels to renewables.

As the old town dies, a new city center is rising an hour and a half's drive to the west on a fertile oasis by the old Silk Road. Here are wide streets, new schools and apartment blocks and optimism. Instead of oil derricks, the flat plains around New Yumen are covered with rows of wind turbines and fields of solar panels. The contrast has made Yumen a byword for energy transformation, a town that shrugged off the mantle of oil and embraced the future. But the reality is not so simple.

Old Yumen is dying because for the past 20 years it has been running out of oil, landing on a growing list of "resource depleted" cities that the government is spending billions to rehabilitate in an effort to prevent social unrest. "Everyone in China's oil industry has a special feeling for Yumen," said Yang Fuqiang, a research fellow at Peking University's Research Institute for Energy. "The resource cities sacrificed themselves for the whole country's development and when they decline the country should help them."

In the 1990s, this remote spot in the arid hills above a desolate plain had 130,000 people and 285 karaoke bars, according to state-owned China Petroleum Daily. When the oil started to run out, the decline came rapidly. As one of China's 69 "resource-depleted cities," the government is trying to help Yumen transform. But there's little it can do for the old oil town. No one would build a city here if it were not for the black gold.

## **Oil demand not looking as strong in Asia**

(Reuters column; May 17) - Asia may be a late arrival to the impending crude oil party. The oil market is largely convinced that a strong recovery in demand is imminent, based on the view that the world is recovering from the coronavirus pandemic and economies are rebounding. Although this may be true for North America and Europe, the top oil-consuming region of Asia is looking somewhat less optimistic, with crude demand in top importers China and India presenting a mixed outlook.

China, the world's biggest crude buyer, looks set for another month of modest imports in May, as several refineries undergo maintenance. India, Asia's second-biggest importer, also is on track to record a soft May import number, even before the hit of the current coronavirus wave on demand shows up in monthly purchases. While these are both likely temporary factors, it does signal that the pickup in Asia's oil demand may not be as rapid as what most analysts are expecting for the rest of major consuming regions.

China's imports surged last year as refiners gorged on cheap crude in the wake of the pandemic and a price war between top exporters Saudi Arabia and Russia, which led to an estimated 1.29 million barrels a day flowing into commercial and strategic stockpiles in 2020. A question is whether China will keep stockpiling at anything close to 2020's elevated levels. Asia's other two big importers, Japan and South Korea, are showing some recovery in imports, but are still yet to consistently reach pre-pandemic levels.

### **India defers LNG cargoes amid oversupply**

(Bloomberg; May 18) - India's liquefied natural gas importers are asking suppliers to defer deliveries as the country's measures to curb the spread of the deadly COVID-19 virus have cut demand for the fuel. At least three companies — Indian Oil Corp., Gujarat State Petroleum, and Petronet LNG — have asked to delay shipments slated for May and June delivery, according to traders with knowledge of the matter, who requested anonymity as the discussions are private.

Inventories at import terminals in western India, such as Dahej, are near full capacity, the traders said. The deferrals illustrate the extent of the natural gas glut in India, which has worsened over the past several weeks. While Indian firms have been accepting most contracted LNG deliveries, they have disappeared as buyers from the spot market since the virus worsened last month and shipments became too pricey.

More deferrals could result in an oversupply of prompt cargoes in the spot market, which would weigh on prices that have rallied to the highest seasonal level in seven years. The importers have requested deferrals from several days to weeks, traders said.

### **Biden should sink the Jones Act**

(Bloomberg opinion; May 17) - Another domestic energy crisis, another waiver of the Jones Act. In response to the ransomware attack on the Colonial Pipeline, which delivers about 45% of the fuel for the Eastern Seaboard, President Joe Biden's administration said it would allow two exemptions to the 101-year-old act, which restricts waterborne commerce between U.S. ports to ships that are built, crewed and owned by Americans. Citgo Petroleum and Valero Energy now have permission to use foreign vessels to transport oil products between the Gulf Coast and the East Coast.

Hurricanes forced previous presidents to suspend the law to ensure deliveries of food, fuel and other goods. This time Biden should face reality and bury it under the waves. As with most protectionist measures, the act harms the very people it purports to help. Because oceangoing Jones Act-compliant ships are more expensive, and there aren't

many of them, the law leads to higher prices for goods, more congested roadways and pipelines, and more pollution from greater reliance on carbon-intensive transportation.

As a direct result of the law, refineries on both coasts can find it cheaper to buy foreign oil than to use domestic crude. Gulf Coast refineries choose to send their products to Latin America instead of the East Coast. The U.S. may be a natural gas powerhouse, but it has no Jones Act-compliant liquefied natural gas carriers, which would cost two to three times as much as ships from South Korea. Puerto Rico gets LNG from overseas, while Northeast U.S. ports look to Trinidad and Tobago and U.S. gas goes abroad.

The Jones Act survives because it supports the narrow interests of a handful of shipping companies and maritime unions. Here's a question for the White House: If this law is so successful and so vital, why does it so often need to be waived in cases of emergency?