Oil and Gas News Briefs
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Goldman Sachs says oil could climb to $80 before year-end

(Reuters; May 23) - Goldman Sachs said it expects oil prices to climb to $80 per barrel in the fourth quarter of this year, arguing that the market has underestimated a rebound in demand even with a possible resumption in Iranian supply. "The case for higher oil prices therefore remains intact given the large vaccine-driven increase in demand in the face of inelastic supply," the bank said in a note dated May 23.

Even "aggressively assuming" a restart of Iranian exports in July, oil would still reach the $80 mark by the fourth quarter, the bank said. Prices fell last week after Iran's president, Hassan Rouhani, said the U.S. was ready to lift sanctions on Tehran's oil, banking, and shipping sectors. Goldman Sachs said a demand recovery in developed markets would offset a recent coronavirus-led hit to consumption and likely slower recovery in South Asia and Latin America. Global demand could increase by 4.6 million barrels per day through year-end, with most of the gains likely this summer, it said.

"Mobility is rapidly increasing in the U.S. and Europe, as vaccinations accelerate and lockdowns are lifted, with freight and industrial activity also surging," the note said. The bank also expects the Organization of the Oil Producing Countries and allies including Russia, a grouping known as OPEC+, to offset any ramp-up in Iranian production by halting for two months an increase in its output planned for the second half of 2021.

OPEC+ meets June 1 amid rising demand, supply rebuild

(Reuters; May 26) - The global oil deficit is now about 1 million barrels per day, Russia's Deputy Prime Minister Alexander Novak said May 26, days before top negotiators for OPEC+ are expected to meet. The Organization of the Petroleum Exporting Countries and its allies, including Russia, a group known as OPEC+, is bringing back 2.1 million barrels per day of oil production through July, whittling away at their previous cuts of almost 10 million, reducing it to 5.8 million barrels. The next meeting is set for June 1.

However, any increase of oil production by Iran if indirect talks between Washington and Tehran lead to a lifting of sanctions could potentially add between 1 million to 2 million barrels per day on top of the gradual rise in OPEC+ supply, analysts estimate. "We have always kept in mind a return of Iranian barrels," Novak told reporters. "We need to consider this. ... We will jointly calculate the (supply and demand) balance."

Citi expected an initial deal for an additional 500,000 barrels per day of Iranian oil to come back to markets in July, at the earliest. The bank also expects strong summer demand, "with markets tight enough to warrant mid-$70 a barrel," it said. OPEC+ will likely step up production May through July, “yet this will presumably happen in line with the recovery of demand," German bank Commerzbank said in a note.

Iran stockpiling oil at sea in hopes of reclaiming market

(S&P Global Platts; May 24) - Iran is starting to build its offshore oil storage as chances of a new nuclear deal grow higher, which would enable it to reclaim its lost oil market share, trading and shipping sources said May 24. Iran is preparing for a quick ramp-up of its output and exports as U.S., Iranian and European negotiators start the fifth round of indirect talks this week in Vienna over a deal.

Iranian oil in floating storage has more than doubled since mid-January when President Joe Biden took office. Iran's oil tankers were holding about 32 million barrels of crude and condensate at sea for the week beginning May 24, according to estimates from data intelligence firm Kpler. The amount was as high as 34 million barrels for the week beginning May 3, which at the time was a 13-month high, according to Kpler data.

In mid-2019, Iran had accumulated almost 60 million barrels of crude and condensates, according to S&P Global Platts and other estimates, as U.S. sanctions and a lack of buyers squeezed its sales. Iran resorted to floating storage under the previous Western sanctions on its oil, which ran from 2011 to 2016, and from 2018 onwards. Iran pumped 2.43 million barrels per day of crude in April, according to S&P Global Platts’ survey of OPEC output, up from 2 million at the end of 2020. Just before the U.S. reimposed sanctions in 2018, Iran pumped at a peak of 3.8 million to 3.9 million barrels per day.

North Dakota approves thousands of permits for new Bakken wells

(Natural Gas Intelligence; May 25) - The Bakken Shale is coming back strong in the months ahead as producers secure more permits and are aided by improved oil-recovery technologies, according to North Dakota officials. North Dakota Department of Mineral Resources Director Lynn Helms said at the Williston Basin Petroleum Conference in Bismarck earlier this month that he had signed orders for an additional 12,095 wells to be drilled into the play, adding to 16,205 active wells.

Permitting did not slow down at the end of last year, he said, and North Dakota has a 1,200-plus permit inventory. “We’re still fighting to get back out of an enormous hole created by the pandemic.” Helms and others talked of how fracturing older wells and using enhanced oil recovery can boost supply. Using EOR and improved technologies, he said, “We’re going to double-down on what we’ve done the past 10 years.”

According to Helms, more than half of the potential well sites in the Bakken “have yet to be drilled.” Producers pumped an average 1.1 million barrels a day in March, up from 2020 lows but still down from the pre-pandemic peak of 1.4 million. Jack Stark, chief operating officer at Continental Resources, said during a panel discussion the Bakken oil recovery rate is 8% but could double using refracks and enhanced oil recovery.

Shareholders push back at Exxon and Chevron

(S&P Global Platts; May 26) - ExxonMobil and Chevron at annual meetings May 26 faced their strongest pushback yet from climate-focused investors urging the oil and gas drillers to "start facing the future" by shifting to lower-carbon technologies and preparing for sharply lower fossil fuel demand. Chevron's shareholders approved new reduction targets for Scope 3 emissions or all upstream and downstream indirect emissions.

ExxonMobil's shareholders approved at least two new directors put forward by Engine No. 1, a small activist investor group aimed at forcing the company to take more aggressive action to slow climate change. The group argues the company has no plans for the energy transition and calls its carbon-capture and other environment-related proposals insufficient to lowering emissions. The races for two other board seats Engine No. 1 challenged were too close to call when the preliminary votes were announced.

The meetings highlight growing and well-organized shareholder pressure across the oil and gas sector to respond to net-zero targets and prepare for the energy transition. "The oil and gas industry has faced a true reckoning this proxy season," said Andrew Logan, senior director of oil and gas at Ceres, a nonprofit that advocates on sustainability issues. "With this vote, the center of power at ExxonMobil and Chevron has shifted, and oil and gas companies can no longer afford to ignore outside pressure."

Dutch court rules Shell must cut emissions 45% by 2030

(CNBC; May 26) - A Dutch court on May 26 ruled that oil giant Shell must reduce its carbon emissions by 45% by 2030 from 2019 levels. That’s a much higher reduction than the company’s current aim of lowering its emissions by 20% by 2030. The landmark ruling comes at a time when the world’s largest corporate emitters are under immense pressure to set short-, medium- and long-term emissions targets that are consistent with the Paris Agreement. The climate accord is widely recognized as critically important to avoid an irreversible climate crisis.

Shell’s current climate strategy says the company is aiming to become a net-zero emissions business by 2050. A spokesperson for Shell said the company “fully expect to appeal today’s disappointing court decision.” The lawsuit was filed in April 2019 by seven activist groups — including Friends of the Earth and Greenpeace — on behalf of 17,200 Dutch citizens. Court summons claimed Shell's business model "is endangering human rights and lives" by posing a threat to the goals laid out in the Paris Agreement.

Roger Cox, a lawyer for activists in the case, said in a statement that the ruling marked "a turning point in history" and could have major consequences for other big polluters. Sara Shaw, Friends of the Earth's international program coordinator for climate justice and energy, said the group hoped the verdict would "trigger a wave of climate litigation against big polluters to force them to stop extracting and burning fossil fuels."

Report skeptical of oil and gas companies' net-zero commitments

(S&P Global Platts; May 26) - Net-zero emissions targets put forward by oil and gas companies offer a chance to hold major emitters to account but continue to face skepticism from researchers examining the robustness of the mounting pledges by countries, states, cities, and companies around the world. Authors of a report titled "Taking Stock: A Global Assessment of Net Zero Targets" discussed their findings May 26 at an American University Institute for Carbon Removal Law and Policy forum.

Overall, their report found that 19% of 4,000 major emitting entities globally have net-zero pledges, covering 61% of global greenhouse gas emissions and 68% of global GDP, but the quality of the commitments is inadequate. The report looked at pledges of countries, states, cities, regions and companies on the Forbes Global 2000 list. "A lot of the targets don't have much credibility, frankly, because they tend to ignore methane," a potent, short-lived greenhouse gas, said Richard Black, senior associate at the U.K. nonprofit Energy and Climate Intelligence Unit.

"They make assumptions about how much carbon removal they're going to have, and some of them don't deal with Scope 3 emissions," Black added, referencing emissions indirectly associated with an activity, such as burning a fuel. "Let's say you're a gun company, and you say you have a pro-pacifism policy [and] don't actually include the use of guns. It's not particularly credible policy." Nonetheless, once a company has made a commitment, there is something against which to hold it to account, he added.

Oil companies enter power markets as they diversify income

(The Wall Street Journal; May 24) - Businesses are buying more renewable power, and oil majors want a piece of the action. European oil companies including BP and Shell are building new wind and solar projects and striking deals to supply electricity to big corporate buyers like Amazon and Microsoft, treading into the domain of traditional power companies. The moves come as more businesses look to limit their carbon emissions, with companies buying a record amount of renewable power last year and on track to hit a fresh high again this year, according to data from BloombergNEF.

Oil companies say securing long-term deals to supply electricity will provide a new source of income and underpin their expansion into wind and solar power as they seek to reduce their dependence on fossil fuels and prepare for a lower-carbon economy. Power supply has historically been regional, with utilities generating and providing electricity to homes and businesses in an area, state or country. Some of these traditional power suppliers have been tapping into demand from businesses for green power for several years, and have decades of operational know-how.

Still, oil executives say their global reach and vast trading operations give them an edge as companies take a more international approach to sourcing power. Corporate power-purchase agreements are an area of focus for BP’s solar-power joint venture Lightsource BP, which this year signed deals to supply Amazon, Verizon Communications, and a unit of insurer Allianz. However, BP said returns in this business are 8% to 10%, lower than what it gets from its traditional oil and gas business. Green power supply is still a fledgling business alongside BP’s giant hydrocarbon operations.

U.K. noncommittal on halting new North Sea leasing

(Reuters; May 25) - The United Kingdom will not commit to halting new oil exploration in the North Sea, a government energy body told Reuters, despite a warning from the world's top energy watchdog to rein in fossil fuels spending to achieve climate goals. The U.K. is due to host the U.N. Climate Change Conference in Glasgow, Scotland, in November and commissioned the International Energy Agency to chart a path toward net-zero emissions by 2050.

The agency published its findings last week, but its recommendation that fossil fuel investment be halted sits uneasily with a deal the U.K. government reached in March to continue allowing North Sea offshore oil licensing in exchange for pledges to cut emissions. "We are working hard to drive down demand for fossil fuels, however there will continue to be ongoing demand for oil and gas," the U.K. department for Business, Energy and Industrial Strategy said in response to emailed questions from Reuters.

"We will not be canceling licenses that were recently awarded. Any future licenses are only awarded on the basis that they are aligned with the government's broad climate change ambitions, including the U.K.’s target of reaching net zero by 2050,” the department said. The Oil and Gas UK industry lobby said it agreed with the IEA's call for more investment in renewables, but that continued oil and gas exploration under government scrutiny of emissions was in line with climate goals and supports jobs.

Top Canadian pension funds boost investment in oil sands

(Reuters; May 26) - Canada's biggest pension managers boosted their investments in the country's major oil sands producers in the first quarter of 2021, raising questions about the funds' recent commitments to greening their portfolios. The cumulative investment by the country's top five pension funds into the U.S.-listed shares of Canada's top four oil sands producers jumped to $2.4 billion in the first quarter of 2021, up 147% from a year ago, a Reuters analysis of filings show.

Much of that increase, which bucked a declining trend since 2018, came from rising prices of shares already owned, but the funds also purchased more shares. The five funds, in order of size, are Canada Pension Plan Investment Board, Caisse de depot et placement du Quebec, Ontario Teachers' Pension Plan, British Columbia Investment Management Corp., and the Public Sector Pension Investment Board, which together manage more than C1.4 trillion (US$1.2 trillion) in assets.

Governments, companies, and investors around the world have stepped up pledges to drastically reduce climate-warming emissions. Some large pension managers, including the New York State Pension Fund and Norway's largest pension fund, have exited oil sands companies. Canadian pension funds face pressure to balance a mandate to be environmentally responsible with their fiduciary duty to maximize returns. The oil sands are a high-carbon industry, yet their rising shares prices are tempting for investors.

China could face summer power shortages amid strong demand

(S&P Global Platts; May 24) - Several key Chinese provinces have issued warnings of power shortages this summer due to insufficient generation capacity and strong economic activity, which could tighten markets for fuels like liquefied natural gas and boost prices in the Asian LNG spot market. Together, the industrialized provinces accounted for more than a third of China's total power consumption in 2020, data from the National Energy Bureau showed.

While domestic electricity and energy demand are growing, almost all energy prices including coal, oil and gas have been rising rapidly in the past few months, prompting the Chinese government to prioritize energy security over decarbonization concerns and the reduction of fossil fuels like coal and gas. Premier Li Keqiang said at an executive meeting of the State Council on May 19 that China should take advantage of its rich coal resource and urged key coal companies to increase production.

In an effort to help meet demand for power, China's national oil companies are boosting domestic gas production and are expected to hit records this year. Strong economic growth has driven China's power consumption this year with the central government in March setting a gross domestic product growth target of above 6% for 2021 compared with growth of 2.3% in 2020. China's total power consumption rose 21.2% year on year in the first quarter, mainly driven by year-on-year growth of 24.1% from industries.

IEA net-zero scenario bodes ill for LNG demand

(Natural Gas Intelligence; May 21) - Many of the liquefied natural gas export facilities already under construction or in planning will not be needed in the future if the world is to reach net-zero greenhouse gas emissions by 2050, the International Energy Agency said in a bombshell report this week. The world's oil and gas needs in a net-zero world can be met by projects greenlit as of 2021, the global energy watchdog concluded in a report titled, "Net Zero by 2050: A Roadmap for the Global Energy Sector."

The scenario sees natural gas traded as LNG falling by 60% between 2020 and 2050 with trade by pipeline falling 65%. "During the 2030s, global natural gas demand declines by more than 5% per year on average, meaning that some fields may be closed prematurely or shut in temporarily," according to the report. "Declines in natural gas demand slow after 2040, and more than half of natural gas use globally in 2050 is to produce hydrogen in facilities" with carbon capture, utilization, and storage.

In 2050, nearly all exports will come from the "lowest-cost and lowest-emissions producers," according to the report. The projection shows North America becoming a minor player in the LNG export sector in that time, falling behind Russia, Australia, and the Middle East. The Qatar-based trade organization The Gas Exporting Countries Forum, responded to the IEA report, saying it "echoed" its findings but adding that natural gas has a "central" role to play in the transition to cleaner energies.

LNG Canada project finishes first phase of pile driving

(Northern Sentinel; Kitimat, BC; May 25) - JGC Fluor has planted its last piece for Phase 1 of piling installation for the liquefaction plant at the Shell-led LNG Canada project under construction in Kitimat, British Columbia. The piles will serve as the foundation for the processing modules and other permanent facilities at the plant. To celebrate, workers decorated the last pile with custom artwork. The first phase included driving 6,843 pilings into the ground, starting in January 2020.

"It's a transition point when the plant boundaries become defined and the above-grade visible permanent structure starts to take shape," Berni Molz, construction director of the joint venture building the plant said in a video posted on Facebook. The pilings were driven more than 140 feet into the ground with some as much as five feet in diameter.

The liquefaction and export terminal's first phase will have capacity to produce almost 14 million tonnes per year of LNG. First cargo is expected by 2025. The total cost of the project, including a pipeline from gas fields in northeastern British Columbia, is projected at C$40 billion.

[LNG Canada project will use natural gas-fueled and electric tugboats]

(Maritime Executive; May 21) - A newly founded ship-assist operator in British Columbia has ordered three all-electric tugs and two LNG-powered tugs from Turkish specialists Sanmar Shipyard, adding to the world's small but growing list of battery-powered towing vessels. HaiSea Marine, a partnership between B.C.'s Haisla Nation and shipbuilder/operator Seaspan, will provide docking and escort services at the LNG Canada export terminal under construction in Kitimat, B.C., due to open by 2025.

In keeping with the reduced-carbon nature of the terminal, HaiSea has ordered two LNG dual-fuel tugs and three smaller battery-electric vessels to provide ship-assist services for the facility. With a bollard pull of about 100 tonnes, the LNG dual-fuel models will be the most powerful tugs on Canada's West Coast — and, with indirect forces of nearly 200 tonnes in escort operation, among the highest-performance tugs of their kind in the world. The electric harbor tugs will develop about 70 tonnes of bollard pull and will recharge with hydroelectric power, resulting in zero emissions in battery-electric mode.

[Puerto Rico LNG import terminal challenges FERC jurisdiction]

(S&P Global Platts; May 26) - New Fortress Energy is asking a federal appeals court to review a U.S. regulator's decision to force the company to apply for a certificate to run a liquefied natural gas import terminal in Puerto Rico that is already in operation. The outcome of the dispute could impact the island's energy consumers and power grid, as well as test the limits of Federal Energy Regulatory Commission jurisdiction.

Beyond Puerto Rico, New Fortress is a growing player in the supply of LNG to the Caribbean, where the bulk of energy consumed is imported petroleum products, including from the U.S. Commissioned in April 2020, New Fortress' facility in Puerto Rico supplies LNG to industrial users and microgrids by trucks as well as sending gas to two units of an adjacent power plant. Two months after the facility started up, FERC issued an order for New Fortress to show cause why the facility it had already built was not subject to FERC's jurisdiction under the Natural Gas Act.

In March 2021, FERC asserted its jurisdiction. FERC's requirement that the developer apply for a federal permit within six months of that decision could involve a lengthy environmental review. New Fortress' subsequent request to FERC for a rehearing was effectively denied recently when the agency did not act on the request, setting up the developer's May 24 petition for review to the U.S. Court of Appeals for the D.C. Circuit.

While FERC's order did not require the facility to shut down, it is not clear what may happen in the future. New Fortress and its key customer, the commonwealth-owned Puerto Rico Electric Power Authority, have argued that disrupting operations at the LNG facility would be a severe setback in meeting the island's energy needs.

Strong market absorbs India’s unneeded LNG cargoes

(S&P Global Platts; May 26) - Strong Asian demand for summer and tight supply amid maintenance and outages at multiple terminals have helped the market absorb the spot LNG cargoes rejected by India due to its COVID-related lockdowns, according to traders and market participants. This has muted the market impact of the diversions and enabled Indian gas importers and their suppliers to find alternate destinations for contracted volumes without any force majeure notices or triggering major disputes.

In contrast, during India's first nationwide coronavirus lockdown in late March 2020, its gas demand plunged and LNG importers Gujarat State Petroleum and GAIL had to issue force majeure notices to their suppliers for March-April deliveries, exerting downward pressure on regional LNG prices amid the supply surplus.

This time around, LNG sellers were able to offer the diverted term cargoes in the spot market — and fetch a higher price — amid sustained high spot LNG prices. The S&P Global Platts Japan-Korea Marker was assessed at $10.47 per million Btu on May 21, nearly five times the assessment on May 22, 2020, at $2.15. "It's a win-win for diversions from India," a trader said. Asia's spot LNG market is being supported by unprecedented demand from North Asia, especially China, where economic activity has been relatively robust in 2021 on the back of recovery from the pandemic.

Hydrogen-fueled trains may be what the market needs

(The Wall Street Journal; May 26) - For all the buzz about hydrogen trucks and planes, railways provide the most immediate test for the rollout of a clean-energy technology that has electrified policy makers and markets alike. Investors got very excited about the potential of hydrogen as a sustainable fuel last year, but have taken a breather in recent months — as they have with other speculative technology themes. The fact remains that, for many industries, so-called green hydrogen produced using renewable power needs about a decade of scaling up and rising carbon prices to make it competitive.

Yet that isn’t the case for rail transport. Hydrogen-powered trains built by France’s Alstom have already carried passengers more than 110,000 miles on trial operations in Europe. The total lifetime cost of ownership is already comparable for trains running on diesel, hydrogen fuel cells or electrified lines, according to a report by consulting firm

Roland Berger. Hydrogen is best seen as a substitute for dirty diesel, still used on about half of Europe's rails and most in the U.S.

The gas is particularly useful on routes that aren't busy enough to give priority to overhead electrification, but are too long for batteries alone. Alstom's hydrogen trains are new, but existing diesel ones can also be retrofitted. The technology faces the classic chicken-and-egg conundrum: Suppliers hesitate to build the big clean-production facilities needed to bring down costs until demand is more certain, while most customers are waiting for lower prices before switching fuels. Trains can help unblock the market because they offer an unusually predictable, long-term source of demand.

Shale drillers say merger will better protect against price swings

(The Wall Street Journal; May 24) - U.S. shale drillers Cabot Oil & Gas and Cimarex Energy said May 24 that they plan to merge in an all-stock deal, combining companies that had a market capitalization of about $14 billion as of last week. The combination of Cimarex, an operator in Texas, Oklahoma, and New Mexico primarily focused on oil, and Cabot, a natural gas producer in the northeastern U.S., brings together two firms operating in different regions and extracting different commodities.

It follows a string of tie-ups between U.S. fracking companies as the energy industry emerges from the COVID-19 pandemic. Recent deals have mostly paired up rivals in the same or similar regions. Having a mix of assets in oil, gas, and natural gas liquids should protect the company against price swings in any single commodity, a particular benefit for shareholders that have sharpened their demands for better investment returns in recent years, said Thomas Jorden, chief executive officer of Cimarex.

"It's a better way to ride through the cycles in our business," Jorden said. "The demands of our sector, in terms of returning free cash flow to our owners, [tell us that] these swings in our cash flow are poison, and this is just a wonderful antidote to volatility." Last year's sharp drop in energy prices illustrated the need to manage oil-and-gas companies around market volatility. The two companies hold more than 740,000 acres in the Permian Basin, the largest U.S. oil field; the Anadarko Basin in Oklahoma and neighboring states; and in the Marcellus Shale in the Northeast.