Oil and Gas News Briefs
Compiled by Larry Persily
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Oil-consuming nations pressure OPEC+ to boost production

(Bloomberg; Oct. 29) - For the past year, oil-consuming countries have become increasingly anxious at crude's resurgence: First to $50 a barrel, then $75 and now to more than $85. And when Russian President Vladimir Putin, one of the leaders of the OPEC+ cartel, warned that $100 was a possibility, the alarm bells really started ringing. Now, as inflation pushes some central banks toward interest rate hikes, the U.S., India, Japan and others are putting the strongest diplomatic pressure on the cartel in years.

Behind closed doors, an intense campaign is being waged to persuade OPEC+ to speed up its output increases, according to multiple diplomats and industry insiders involved in the contacts. The cartel, which meets virtually on Nov. 4 to review policy, is currently boosting output at a rate of 400,000 barrels a day each month through spring.

The private efforts come on top of recent public appeals. The Biden administration is increasingly alarmed by rising gasoline prices that have reached a seven-year high, and has been calling on OPEC+ to pump more crude. Japan, the world's fourth-largest oil consumer, took the rare step of adding its voice to those calls in late October — a first for Tokyo since 2008. India, the third-largest consumer, has also asked for more crude.

So far, Saudi Arabia and others have refused to move quicker, arguing the monthly 400,000 barrel-a-day additions are enough to satisfy the appetite for oil in a global economy still nursing the wounds of the pandemic. "We are not yet out of the woods," Saudi Energy Minister Prince Abdulaziz bin Salman said on Bloomberg Television last week. "We need to be careful. The crisis is contained but is not necessarily over."

Exxon, Chevron will add drill rigs to Permian Basin

(Reuters; Oct. 29) - ExxonMobil and Chevron on Oct. 29 disclosed plans to expand drilling in the top U.S. shale basin after posting their biggest quarterly profits in years. Both were latecomers to the West Texas shale fields, and both last year slashed shale production and cut drilling as oil demand tanked. They could soon add two rigs each and rev up output, executives said on earnings calls. Exxon last quarter produced about 500,000 barrels of oil and gas a day from the Permian basin using nine drilling rigs.

"We may see a couple more rigs come on here," said Exxon Chief Executive Darren Woods, based on its latest well results. The company's third-quarter Permian output rose about 30% above the prior period, he said. Chevron plans to add two drilling rigs and two crews to complete new wells in the Permian this quarter, Chief Financial Officer Pierre Breber told analysts. Chevron's Permian production could rise to 1 million barrels per day from 600,000, Chevron said, on a day it reported its best quarter since 2013.

Exxon paid $30 billion for U.S. shale producer XTO Energy in 2010 in an ill-timed bet on natural gas prices and later spent up to $6.6 billion to add to its West Texas shale assets. In 2017, it took a $2 billion charge against its natural gas reserves from the XTO buyout, and last year wrote down the value of natural gas properties by about $20 billion, most associated with XTO, as demand for fuels tanked during the pandemic.

Flow reversal on U.S. oil pipeline will help Canadian producers

(Financial Post; Canada; Oct. 28) - Canadian oil producers may soon enjoy higher prices for the crude they sell into the U.S. as a major south-to-north pipeline is in the final stages of a reversal — an underappreciated event that could lift the prospects of Canada's oil industry. Ohio-based Marathon Pipelines has filed tariffs for transportation of crude oil on its Capline pipeline north-to-south from Patoka, Illinois, to St. James, Louisiana, according to RBN Energy, an energy markets consultancy.

Capline was the largest south-to-north flowing pipeline in the United States, with a capacity of 1.2 million barrels of oil per day, but owner Marathon Petroleum has been working to reverse the flow since 2017, which would allow both heavy and light oil — including Canadian crude unable to move out of the Midwest — to flow from a storage hub in the Midwest to a major U.S. Gulf Coast refining center. The company website notes that the reversal will be completed this year.

BMO Capital Markets analyst Randy Ollenberger said he expects the pipeline will shrink Western Canada Select discounts relative to West Texas Intermediate oil prices to US$10 per barrel. The current discount runs about US$15.50. To use the Capline, Canadian oil producers will need to ship their crude on Enbridge's Mainline pipeline system to the U.S. Midwest, and then switch to the Enbridge's Southern Access pipeline connected to the Patoka oil storage hub, which provides direct access to the Capline and its new straight shot to refineries on the U.S. Gulf Coast.

U.S. coal miners 'pretty much sold out' for 2022 production

(Bloomberg; Oct. 28) - Almost every lump of coal that U.S. miners will dig out of the ground next year has already been sold, as surging natural gas prices prompt utilities to burn more of the dirtiest fuel. Peabody Energy, the top U.S. supplier, has contracts for more than 90% of its coal from the Powder River Basin next year and all of the power-plant fuel from its other U.S. mines. No. 2 Arch Resources has lined up utility deals for all of its 2022 output from the basin at an average price 20% above current spot prices.

Demand for electricity is surging as the global economy recovers from the pandemic and winter approaches, driving natural gas prices to record highs. Even with coal miners boosting output next year, power producers are signing multi-year contracts for every ton they can get. As global leaders converge in Glasgow next week for a key United Nations climate conference, these lengthy coal-supply deals are further evidence that the transition to clean energy is going to take some time.

"It's pretty much sold out," Peabody CEO Jim Grech said during a conference call Oct. 28. "We only have a small portion left to be sold for 2022 and for 2023." Arch's thermal coal output for 2022 is "fully committed," CEO Paul Lang said Oct. 26, with an average price for Powder River output of $16 a ton. That's well above the $13.25 spot price last week, according to S&P Global Market Intelligence. "Our challenge in America is most producers are all sold out," Alliance Resource CEO Joe Craft said during a call Oct. 25.

Europe's shift away from oil-linked gas contracts a loser this year

(The Wall Street Journal; Oct. 27) - For years, the European Union tried to loosen Russia's iron grip on its gas supplies by fostering a competitive import market. Those efforts have boomeranged this year as supplies run short, setting off an energy crisis across the Continent. European energy ministers met Oct. 26 to address the shortage, which is stinging homeowners and lifting prices for goods from metals to fertilizers. But there is little they can do to boost supplies immediately, and Russia isn't helping.

European officials and companies over the past decade successfully pressured Russian energy giant Gazprom, which is by far the bloc's largest supplier, to replace long-term contracts linked to the price of oil with sales based on the real-time market price for gas. It was part of a broader effort to foster a deeper marketplace, with a diversity of gas suppliers competed for Europe's business. But Russia remained the dominant supplier, giving Moscow huge influence over one of Europe's leading sources of power and heat.

When gas was in ample supply, the switch paid off. For much of the past decade, gas was cheaper than oil. With gas now scarce, prices are skyrocketing. EU members will pay about $30 billion more for gas in 2021 than they would have under oil-indexed prices, according to the International Energy Agency. The IEA still thinks the switch was worth it, estimating the bloc saved $70 billion in lower gas costs over the past decade.

"The Russians told us for ages: Don't do it, it's stupid, stick to oil-linked prices," said Jonathan Stern, a research fellow at the Oxford Institute for Energy Studies. "They have been consistently wrong for the past 10 years, but this year they happen to be right." Russian President Vladimir Putin told a government meeting this month: "It has become absolutely evident today that it is a mistaken policy. It leads to glitches and imbalance."

Japanese LNG buyers don’t want to be caught short in cold winter

(Reuters; Oct. 28) - Japanese buyers of liquefied natural gas are scouting for cargoes to ensure they have adequate supplies of the fuel to meet peak heating demand this winter, industry sources told Reuters. A spike in demand from one of the world's top importers of LNG will likely boost prices at a time when a gas shortage in Europe already has been keeping them elevated. The firms include utilities and at least one gas company, the sources said, adding that Japan's biggest power generator and top LNG buyer, JERA, is also seeking cargoes for delivery in December and January.

Japan's Ministry of Economy, Trade and Industry is encouraging power companies to stock up for the winter. “The electricity reserve rate in the coming winter is not high enough for a cold winter,” said a source at a Japanese firm. Details of the companies' requirements, such as overall volumes needed, could not immediately be confirmed as they were seeking the cargoes privately, the sources said.

It was reported last week that Japan's LNG inventory held by major electric utilities stood at about 2.3 million tonnes as of Oct. 15, a five-year high, though the government has warned that electricity supplies this winter may be at their tightest since the 2011 Fukushima disaster. A cold winter could draw down reserves quickly, leaving the utilities to scramble for spot cargoes as they did earlier this year, traders said.

New York state denies permits for 2 gas-fired power plants

(S&P Global Platts; Oct. 27) - The New York State Department of Environmental Conservation on Oct. 27 denied applications for two proposed natural gas-fired power plants, finding that both would be inconsistent with the state's ambitious climate law and are not needed for power-grid reliability. The DEC denied approval of the required air permits for the 536-megawatt Danskammer Energy Center in Newburgh, Orange County, and the 437-megawatt Astoria Gas plant, according to statements from DEC.

The Astoria plant is owned by a subsidiary of NRG Energy and the Danskammer plant is privately owned by local resident Bill Reid. "I applaud the Department of Environmental Conservation's decisions to deny the permits for the Danskammer Energy Center and Astoria Gas Turbine Power, in the context of our state's clean-energy transition," Gov. Kathy Hochul said in a statement.

NRG proposed constructing the Astoria project as a new simple-cycle, dual-fuel fossil fuel-fired peaking combustion turbine generator. Danskammer sought authorization to build a new gas-fired combined-cycle power plant at the current site of its existing gas plant. Originally built as a coal-fired power plant, Danskammer switched to gas in 2014, according to the company's website.

Federal court questions eminent domain for export project gas line

(EnergyWire; Oct. 29) - A federal appeals court on Oct. 18 appeared prepared to send energy regulators back to work on their approval for an embattled Oregon liquefied natural gas export facility. During a 3½-hour hearing, the U.S. Court of Appeals for the District of Columbia Circuit examined whether the Federal Energy Regulatory Commission had done an adequate job of supporting the use of eminent domain for a 230-mile pipeline associated with the Jordan Cove LNG export terminal proposed for Coos Bay and whether the agency had properly analyzed the project’s climate impact.

The development has been on hold since Calgary-based Pembina Pipeline said in April that it would suspend all work on the project after it failed to obtain state permits. The firm has yet to say whether it plans to restart its efforts. The plan had been to ship gas from Western Canada to Asian markets. Judges for the D.C. Circuit appeared skeptical that FERC had justified its delegation of federal eminent domain power to acquire land for a pipeline that would not carry domestically produced gas or serve U.S. customers.

"We have a different animal here, that 100% of this gas is exported," said Judge Ketanji Brown Jackson, later adding, "Cases that talk about domestic need don’t quite seem to fit." The Natural Gas Act allows FERC to give eminent domain power for interstate lines but not international projects. The attorney who represented landowners affected by the project has argued that the case provides the court an opportunity to rule on whether a pipeline for an LNG export facility can use eminent domain power.

FERC approves early site work at Louisiana LNG project

(Reuters; Oct. 29) - Liquefied natural gas project developer Venture Global LNG received federal permission on Oct. 29 to start early site work at the company's proposed Plaquemines export plant in Louisiana. The Federal Energy Regulatory Commission approved Venture Global's Oct. 19 request to start clearing activities north of the levee at Plaquemines, about 20 miles south of New Orleans.

Plaquemines will likely be the first and possibly the only U.S. LNG export project to go forward in 2021 after no projects started in 2020. A record number of North American projects started in 2019, according to analysts. Venture Global is still waiting for FERC to approve its request to start installing piles and pile caps for a heavy haul bridge that will allow transport of modules from offloading facilities on the Mississippi River.

Venture Global said on its website that it expects financial close on Plaquemines in the fourth quarter of this year, which analysts said could allow the plant to produce its first LNG in 2024. Financial close for Venture Global is similar to making a final investment decision for other companies — the point at which the firm decides to build the project. Plaquemines would produce up to 20 million tonnes per year of LNG. Analysts have said the plant would cost about $8.9 billion.

Putin meets with gas producers, pushes for more Arctic development

(Barents Observer; Norway; Oct. 28) - As international natural gas prices hiked to a historical high, Russian President Vladimir Putin on Oct. 27 summoned his top two industry representatives to a meeting devoted to the development of Yamal region, the country's main gas production hub. Aleksei Miller and Leonid Mikhelson are the leaders of Russia's two biggest natural gas companies, Gazprom and Novatek, respectively. Both of are heavily engaged in the Arctic.

Putin is eager to present Russian gas as a key solution to energy problems in Europe and Asia, and makes clear that Europe's record-high energy prices are due to the drop in the continent's own gas production. Recently, Putin has mocked the European Union for its energy policy, arguing that European countries made grave mistakes when trying to rapidly turn from coal and nuclear power and toward wind power.

He also has argued that Europe should not have given priority to spot trade in place of long-term gas contracts. Putin said Russia's Arctic gas can provide long-term supplies and "significantly contribute to energy security in Europe and Asia." Measures must now be taken to prepare for the industry's further development, he said, highlighting the importance of the Northern Sea Route, other marine shipping lanes, and a new railway.

China's natural gas demand forecast at 10% higher this winter

(Reuters; Oct. 28) - China's demand for natural gas is expected to rise to 6.35 trillion cubic feet this winter, up 10% from a year earlier, an official at PetroChina, the country's top oil and gas producer, said on Oct. 28. So far, China has secured a total of 6.15 tcf of gas for this winter, according to PetroChina and Li Jianlei, a manager at Sinopec. Most of the gas will come from domestic production, with pipeline imports and liquefied natural gas cargoes supplying more than one-third of the need.

"We expect that in general gas supply is able to meet the market demand this winter, but there could be tight supply in some peak periods," said Li Wei, a vice director at PetroChina's gas marketing company, the country's largest gas wholesaler. Weather experts predict the return of the El Nino weather pattern this winter, indicating lower temperatures in northern China and less rainfall in southern China, which could lead to stronger gas demand for heating and power generation. The government has urged energy firms to step up efforts to boost gas supply before winter demand kicks in.

Sinopec's Li also said the company is "actively" increasing gas storage for emergency use. A new LNG storage tank at its Tianjin terminal is scheduled to start operations by the end of November.

Alberta wants oil and gas companies to pay delinquent property taxes

(CBC News; Canada; Oct. 28) - The Alberta government wants to change the law to strong-arm oil and gas companies into paying municipalities hundreds of millions of dollars in outstanding property taxes. Municipal Affairs Minister Ric McIver said on Oct. 28 that his proposed legislation may not recoup all of the estimated C$245 million owed to 69 rural municipalities, but he said it's a start. "This is a hammer," he told reporters.

"Among the vast majority of responsible oil and gas companies that pay their bills, there's some bad actors that are refusing to. And the hammer is required," McIver said. The "hammer" he wields is the Municipal Government (Restoring Tax Accountability) Amendment Act, presented to lawmakers on Oct. 28. If passed, the change would allow municipalities to place a special lien on owners and operators of oil and gas companies that owe taxes. It would apply to land used by pipelines and equipment.

McIver said it gives companies in arrears 120 days to pay up, or strike a payback deal, before the municipality can seize any company property within its borders. The special lien would also bump a municipality higher up on the list of creditors to be paid out, should the company go bankrupt. "The idea is not to spur a bunch of legal action, but rather to spur people to pay their taxes in the first place," he said. The move comes after a 2019 Alberta Court of Appeal decision that said municipalities could not place special liens on properties traversing pipelines. The bill seeks to restore that power.

Qatar reportedly planning bond issue for green projects

(Reuters; Oct. 27) - Qatar Energy, one of the world's top liquefied natural gas suppliers, is working on a plan to reinvent itself as environmentally responsible for investors via a framework that will pave the way for it to sell "green" bonds in a deal likely to be worth several billion dollars, sources said. Qatar Energy is working on establishing an environmental, social and governance framework that would allow it to issue green bonds — debt earmarked for environmentally friendly uses — sources said.

It would be the first sale of green bonds by a national oil company in the hydrocarbon-rich Gulf. A consultancy is working on the framework and Qatar Energy sent a request for proposals to banks about two weeks ago, one of the sources said. Once the ESG framework is established, Qatar Energy plans to structure a green bond deal, though the debt sale is unlikely to happen this year, the source said. It was not immediately clear what proceeds from the expected sale of green bonds would be used for.

There is a lack of clear definitions or standards for what constitutes a green bond globally, with some regions and countries setting out their own guidelines, including the European Commission announcing a European Green Bond Standard in July. Previously named Qatar Petroleum before recently rebranding, the state-owned energy giant, which supplies one in five LNG cargoes globally, raised $12.5 billion in its debut jumbo bond issuance in late June. The rebranding to Qatar Energy was part of the company's new shift toward ESG considerations, another of the sources said.