Energy Intelligence

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OIL DAILY®

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US Climate Bill Prospects Remain on Shaky Ground

The prospects for Democrats to push a package of clean energy incentives through Congress ahead of the August congressional recess may be diminishing amid competing legislative priorities and pressure over soaring inflation.

Senate Majority Leader Chuck Schumer (D-New York) and key swing vote Sen. Joe Manchin (D-West Virginia) have been in talks since the spring on a piecemeal energy and climate bill, which has been whittled down to mostly clean energy tax incentives totaling roughly $320 billion.

But the target of advancing a framework bill ahead of the Aug. 5 Senate recess is in danger of slipping, and conventional Washington thinking suggests the prospects for passing substantial climate legislation will grow dimmer as November's midterm elections draw closer.

Sticking points have reportedly not been ironed out yet over a “direct pay” option for wind and solar tax credits, which would allow the federal government to pay out the credits even if a company’s tax burden is low, and a $4,500 credit for electric vehicles produced in domestic unionized facilities.

The “direct pay” friction, however, is confined to the renewable tax credit and may not affect the provision related to the enhanced tax credits for carbon capture, which is also part of the legislative package, Energy Intelligence understands.

Earlier this week, Manchin, responding to another spike in inflation, stoked fresh doubts over the prospects of reaching an agreement on climate and energy and suggested he might only agree to narrow Democratic legislation on drug pricing.

“It depends on if we can look at things and find a pathway forward that’s not [inflationary]," Manchin said Wednesday, according to press reports. "We know what we can pass. It's basically the drug pricing on Medicare."

Another possible wrinkle: bipartisan squabbles over a separate innovation bill is intensifying the pressure on Democrats to keep any reconciliation efforts as slimmed down as possible, which may mean abandoning efforts to include climate and energy provisions.

Energy Promises

A *Washington Post* report earlier this week suggested that White House officials were weighing whether to offer Manchin several high-profile energy-related approvals in exchange for his support of clean energy legislation.

Among the potential approvals listed in the report: the US Department of the Interior's recently proposed a five-year Outer Continental Shelf leasing plan, the Mountain Valley Pipeline — a hot button issue for Manchin — and ConocoPhillips’ Willow project in Alaska.

Sen. Lisa Murkowski (R-Alaska) said Wednesday during a hearing on Interior’s budget that she’d had conversations with President Joe Biden to stress the importance of the Willow project, which has potential peak production of over 180,000 barrels per day of crude oil and a three-decade lifespan.

During the same hearing, Interior Secretary Deb Haaland refused to say whether the department has committed to offering any new lease sales under the proposed plan, saying she did not want to prejudge the process.

If such approvals do end up on the table as a sweetener for Manchin, the logistics is less than clear — it does not seem likely that authorizing any of the energy-related measures would pass muster under the strict Senate rule that items included in the reconciliation process be material to revenue. For that reason, they probably wouldn't be written into legislative language but rather agreed to on the margins of a compromise, a former senate official said.

Bridget DiCosmo, Washington

Permian Indies Join Methane-Tracking Initiative

Three of the US' biggest independent hydrocarbon producers are joining a global initiative committed to measuring, reporting and mitigating emissions of methane, a potent greenhouse gas (GHG).

US giants ConocoPhillips, Pioneer Natural Resources and Devon Energy said Thursday that they have joined the Oil and Gas Methane Partnership (OGMP) 2.0 Initiative, with a mission to "improve the industry's transparency in methane-emissions reporting and encourage progress in reducing those emissions."

Methane Problem

The measuring and reporting of methane emissions has emerged as a key challenge in efforts to reduce GHG pollution associated with energy production and achieve broader net-zero goals.

The International Energy Agency estimates that roughly 342 million tons of methane are emitted from anthropogenic sources each year, with around 134 million tons coming from the energy sector.

However, it is notoriously difficult to calculate methane emissions, particularly from oil and gas operations, where leaks large and small often go undetected.

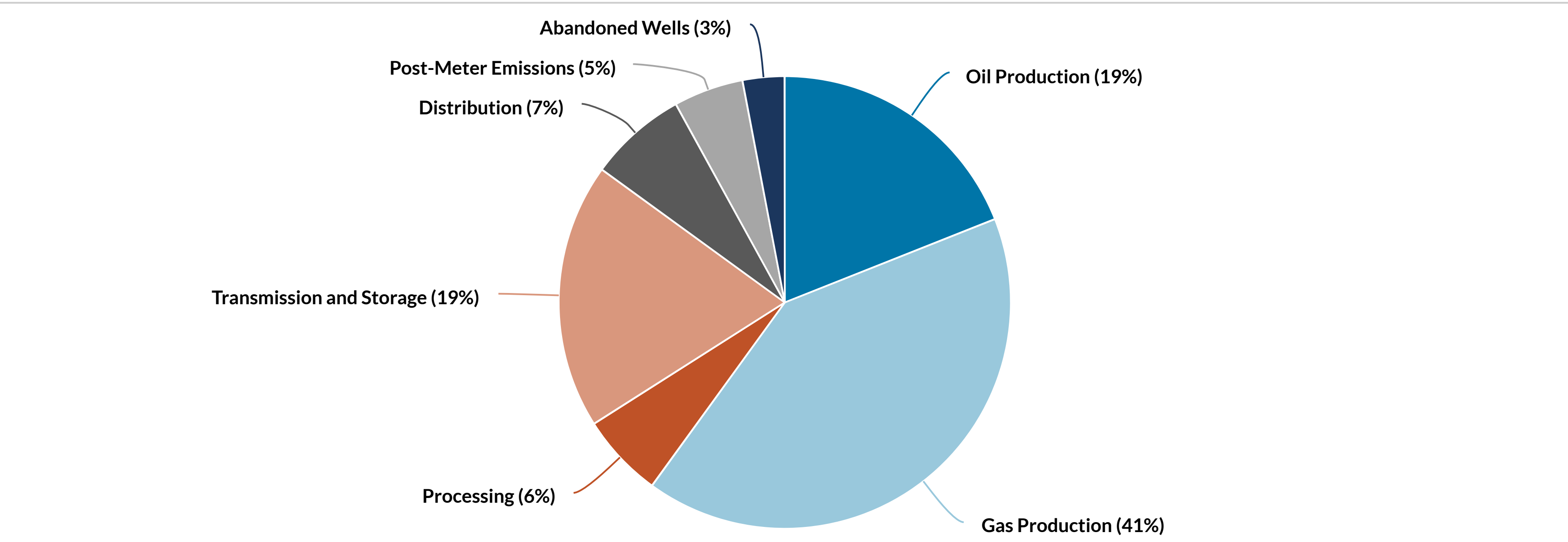
The Permian Basin in West Texas and New Mexico — where each of ConocoPhillips, Pioneer and Devon are major players — has been going in the wrong direction recently on methane emissions.

Emissions-tracking firm Kayrros reported last month that the Permian Basin saw its methane emissions soar in the first quarter of this year, up 33% from the end of 2021 and up 47% from a year earlier. Methane intensity — a measure of emissions relative to production — is also pushing higher, Kayrros found.

The US Environmental Protection Agency says oil and gas operations in the US accounted for an estimated 211 million tons of carbon dioxide equivalent emissions in 2020.

US OIL AND GAS METHANE EMISSIONS BY SEGMENT

Total: ~211 MMTCO2e (2020)



Source: Environmental Protection Agency

Pledging Transparency

Members of OGMP pledge to transparently report their methane emissions and set reduction targets that are "reflective of broader goals" to cut emissions from 2015 levels by 60%-75% by 2030.

While individual company data is kept confidential, "participating companies will be provided with the means to credibly demonstrate that they are contributing to climate mitigation and delivering against their methane improvement objectives and targets," according to a release.

ConocoPhillips CEO Ryan Lance said reducing methane emissions is "an important priority" for the company.

"We believe that applying the rigorous OGMP 2.0 reporting standard across our global assets will be a vital step on our path to net-zero operational emissions by mid-century," he said in a statement.

Devon CEO Rick Muncrief said advanced methane-detection technology and enhanced transparency "are key components to Devon's broader emission-reduction strategy" and that meaningful change will require "collaboration and collective efforts."

Pioneer CEO Scott Sheffield also said accurate and transparent reporting is "imperative" for Pioneer and other large Permian producers.

Giulia Ferrini, OGMP 2.0 manager for the UN Environment Program, said she hopes the addition of these members "encourages others to join this global effort aimed at improving methane emissions measurement and transparency."

More than 80 oil and gas companies, including BP, TotalEnergies, Shell and Equinor, are members of OGMP 2.0, in addition to "non-company members" such as the European Commission and the Environmental Defense Fund.

Luke Johnson, Houston

ConocoPhillips Looks to Expand LNG Reach with Sempra Deal

US independent ConocoPhillips plans to bolster its North American LNG footprint through a sweeping deal to partner with Sempra on export facilities in the US and Mexico.

Under an initial, non-binding agreement announced Thursday, ConocoPhillips would acquire a 30% direct equity holding in the proposed 13.5 million ton per year first phase at the Port Arthur LNG project in Texas.

The deal would also consider a potential 20-year tolling agreement that would see ConocoPhillips become the facility's largest offtaker so far, with 5 million tons/year.

Global Reach

The deal marks another expansion by ConocoPhillips into the LNG space following the Russian invasion of Ukraine, which has left Europe with few options for natural gas supply. The announcement comes weeks after the Houston-based company snagged a 3.125% stake in QatarEnergy's North Field East expansion.

But the independent was already growing its LNG portfolio before the European energy crisis. In February, a week before the invasion, ConocoPhillips increased its stake in the Australia Pacific LNG consortium to 47.5%.

"The decision to enter into this agreement with Sempra provides us with a ground-floor opportunity to participate in premier LNG developments, reinforcing our commitment to helping solve the world's energy supply needs as we transition to a lower-carbon future," CEO Ryan Lance said Thursday.

ConocoPhillips could also invest in other Sempra projects in Mexico, since the agreement provides an option to acquire offtake and equity stakes of the second phase of the Energia Costa Azul development on the West Coast.

Port Arthur Plan

For Sempra, the deal puts the once-sidelined Port Arthur LNG project more firmly on a path toward a final investment decision. With between 9.65 and 11.65 million tons/year of offtake now secured, the company said it had reached substantial completion of the marketing phase for the project.

ConocoPhillips could also have a hand in future developments at the Port Arthur site. The deal would give it the option to acquire offtake and equity stakes in the Phase 2 expansion, which is being marketed, as well as hydrogen projects.

Sempra Infrastructure would also potentially participate in carbon capture and sequestration (CCS) projects developed by ConocoPhillips in Texas or Louisiana in connection with the Port Arthur LNG project.

While Sempra has already laid out plans to develop CCS at its projects, this could be the first time ConocoPhillips has mentioned such projects in a specific way. Late last year, the company said it would spend $200 million this year on emissions reduction projects, including "early-stage low-carbon energy technology opportunities" such as CCS and hydrogen.

In another low-carbon effort, ConocoPhillips may provide certified natural gas to Sempra facilities in the future, under the initial agreement.

Caroline Evans, Houston

The Political Case for Biden's Saudi Arabia Visit

US President Joe Biden will arrive in Saudi Arabia on Friday to rehabilitate a critical energy security relationship at a time when high energy prices are adding to political pressures at home.

Biden is traveling to Jeddah, where he will meet with Saudi Arabia's leadership as well as Arab leaders from Bahrain, Kuwait, Oman, Qatar, the United Arab Emirates, Egypt, Iraq and Jordan — collectively known as the GCC+3.

Limited Supply Upside

Energy security might be the background to the meeting, but Saudi Arabia and the UAE are unlikely to announce an immediate increase in oil output, particularly outside of the Opec-plus organization. The next Opec-plus meeting on Aug. 3 could see some movement on that front.

The producer group's two heavyweights have already increased production for July and August, and oil prices have been easing on the back of recession fears.

Instead, the focus is on making sure the US and Saudi Arabian governments have a working relationship in the event of supplies tightening, multiple sources and observers have said. That in and of itself is a feat, after Biden called Saudi Arabia a "pariah" on the campaign trail and the White House made clear it did not consider Saudi Arabia's de facto leader Crown Prince Mohammed bin Salman his counterpart.

"First, and most simply, this trip is going to break the ice," said John Alterman, the director of the Center for Strategic and International Security's Middle East program. "We've had all kinds of speculation about when and under what circumstances the president will speak with the Saudi leadership — both the king and the crown prince. Making every encounter a fraught and transactional negotiation has made things difficult, and this trip is seeking to make future contact easier."

Political Downsides

That doesn't mean Biden won't take political hits for participating in the bilateral meeting. Saudi Arabia's war in Yemen, the killing of journalist Jamal Khashoggi and other human rights concerns, and its status as a major oil producer are all regular political focal points, particularly for Democrats on Capitol Hill.

"Over and over again, the Saudi government acts in ways that are directly contrary to US security interests, and over and over again, the United States just looks the other way," progressive Senator Chris Murphy (D-Connecticut) wrote in *Foreign Policy* this week.

Americans tend to have a relatively unfavorable view of Saudi Arabia: a Gallup poll in May found that 64% view the country unfavorably, and that figure has fluctuated between 54% and 67% over the past decade.

Biden has been left defending his record on human rights issues while insisting that the trip has broader aims. "My views on Khashoggi have been absolutely, positively clear, and I have never been quiet about talking about human rights," he said Wednesday. "The reason I'm going to Saudi Arabia though, is much broader ... and I want to make clear that we can continue to lead the region and not create a vacuum, a vacuum that is filled by China and/or Russia."

Those are rarely deciding issues for US voters in any case, who generally prioritize the economy, the cost of living and prices at the pump. Official inflation numbers published on Wednesday served as a reminder of that, showing energy prices were up 41.6% on the year in June. The Middle East's "energy resources are vital for mitigating the impact of global supplies of Russia's war in Ukraine," Biden wrote in a *Washington Post* op-ed this week.

Regional Groundwork

Biden's visit to Jeddah isn't simply about Saudi Arabia. The US president will attend a meeting of Arab countries on Saturday in which he is slated to deliver remarks on US strategy in the Middle East. A large part of that strategy is focused on furthering Israel's integration into the region — critical at a time when diplomacy with Iran over its nuclear program appears to be fraying.

Biden said Thursday that the US was "not going to wait forever," for a breakthrough in the Iran talks. Biden and Israel's interim Prime Minister Yair Lapid on Thursday signed an agreement in which the US said it was "prepared to use all elements of its national power to ensure" Iran never acquire a nuclear weapon.

Biden has framed that integration as furthering peace in the region.

"Israel's integration in the region, Israel's peace with its neighbors, these are essential goals," Biden said.

Emily Meredith, Washington, and Simon Martelli, London

Oil Prices Remain Volatile Amid Cross Currents

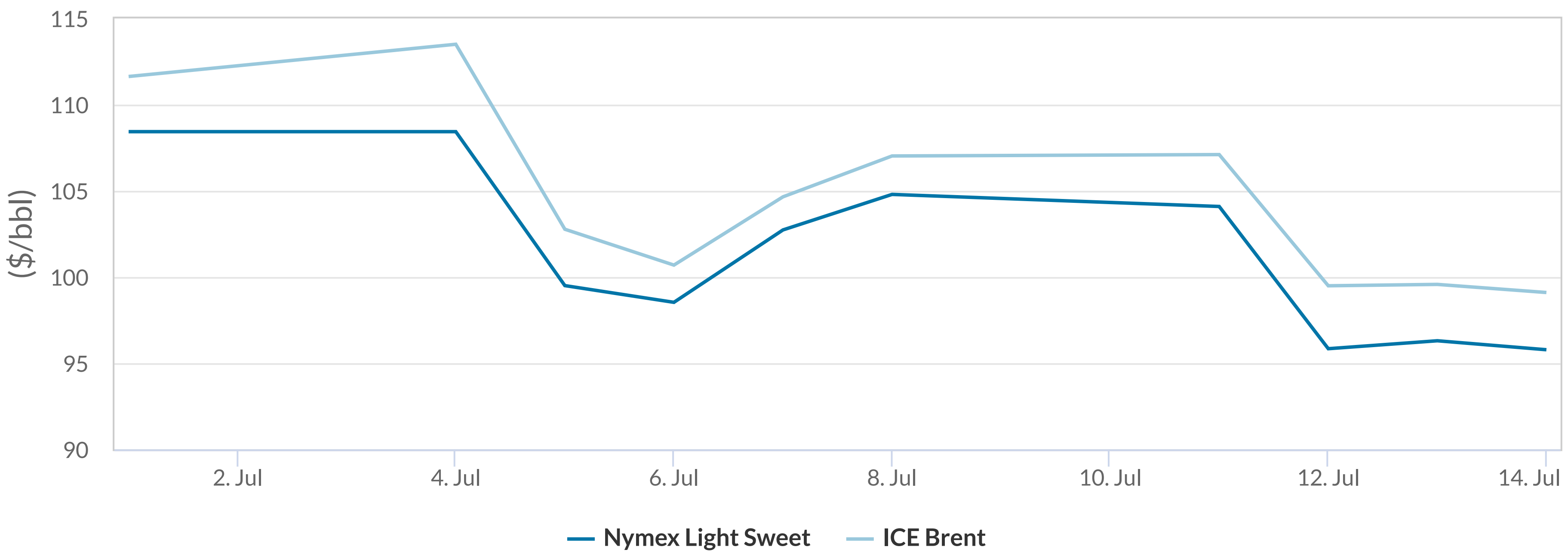
Oil futures took a dive early in the session on Thursday but clawed back lost ground in the afternoon, settling down for the day but well above session lows.

In London, Brent crude for September delivery closed 47¢ lower at $99.10 per barrel, although prices breached $100/bbl again shortly after the end of the official session.

In New York, August West Texas Intermediate (WTI) on Nymex lost 52¢ to settle at $95.78, while the September contract ended the session down $1 at $92.83/bbl; both contracts also rose after the official close.

ICE BRENT VS. NYMEX WTI FUTURES

Front Month Contracts



The price action so far this week has been characterized by the tug of war between the higher risk of economic slowdown, if not downright recession, and a physical market still pointing to short-term supply tightness. The late correction has tightened the time spreads in both Brent and West Texas Intermediate (WTI) futures. But the Brent September premium to deliveries in October has held much better than later dated contracts, showing that the tail of summer demand is keeping this market stretched like a rope.

Prompt product prices are rising faster than supply in markets showing large deficits. Refining is struggling to make up for the shortfall of shunned Russian products. The closure or conversion of 3.9 million b/d of capacity is leaving the world short of adequate throughputs, and most of the spare refining capacity now sits in China, where it has been idled during the Covid-19 lockdown and ensuing demand dip. To make matters worse, a Chinese export ban on products is preventing capacity from being freed up elsewhere.

As a result, margins in Europe have remained at stratospheric heights. Refined product cracks in the US and Europe are still hovering around a whopping $40/bbl, enticing refiners to run as hard as possible to resupply the market and stem the global decline in product inventories. Refiners also buy closer to the loading date to mitigate the steep backwardation and higher volatility risk. They lean on the spot market to decide whether to maximize their term volumes, which tends to support prompt prices.

Hedging activity further back of the curve, however, has continued to dwindle. The ICE low-sulfur gasoil contract is exemplary of that trend, with net short positions from producers down to 72 million barrels, versus a high of 300 million bbl one year ago. There is no more gasoil inventory to be hedged, traders said, hence the drought in liquidity. In addition, the exchange's initial margins have become so expensive that smaller traders are doing less hedging or giving it up completely.

"The battle between 'paper' and physical oil traders will keep volatility elevated, but, in our opinion, the market remains too tight to trigger an industrial metal styled correction," Saxo Bank wrote. "In Brent, the key area of support can be found between $97.50 and $97."

Physical traders concur that the recent price retracement may have to find its floor but that a rebound is likely given the tight fundamentals. The odds of a recession are higher, but its full-fledge effects will not materialize this quarter, nor probably the next.

Demand, however, is already showing signs of weakness, mainly in OECD countries. In its latest *Oil Market Report*, the International Energy Agency (IEA) cites a "lackluster start to the US driving season," reporting a counter-seasonal drop in gasoline consumption to its seasonal lowest since 2000. A gradual curtailment of gasoil demand on the back of a "rapidly deteriorating global economic outlook in major OECD countries" is also creating headwinds to 2022 demand growth.

Oddly enough, the strong performer has been non-OECD, with China finally emerging from Covid-19 lockdowns, India boosting its product consumption and the Middle East demanding more oil for power generation (cooling demand). For now, this seasonal strength has kept a floor under prices.

Julien Mathonniere, London

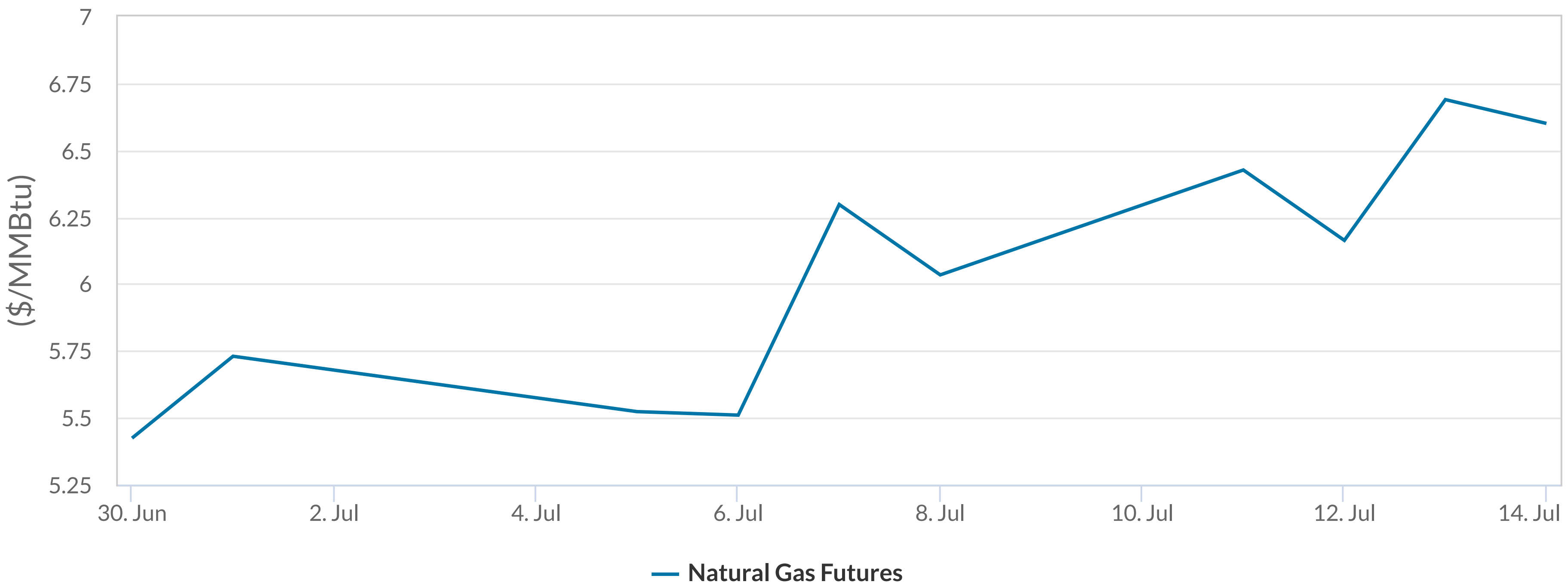
IN BRIEF

US Natgas Storage Climbs by 58 Bcf

The US Energy Information Administration (EIA) reported a 58 Bcf build for the week ended Jul. 8, bringing the volume of working natural gas in storage to 2,639 Bcf.

Gas market reaction was muted as the storage data mirrored analysts' expectations in a Reuters survey, with August US gas futures slipping by 8.9¢ on Thursday to $6.60/MMBtu.

NYMEX NATURAL GAS FUTURES



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That was good news for bears — the bullish miss some expected could have sent the prompt month above $7/MMBtu, as futures were up by about 2.5% prior to the report.

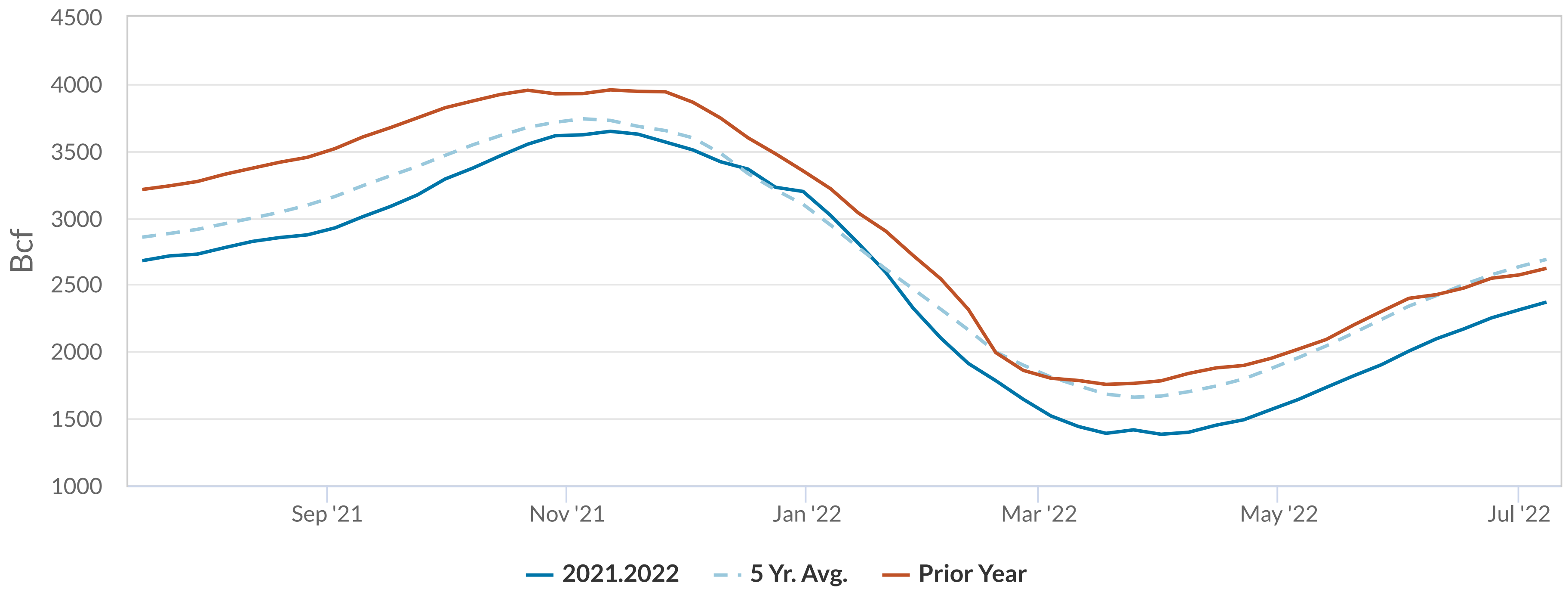
Early models see next week's EIA data coming in just above the five-year average, further reducing the seasonal deficit, which is now at 319 Bcf, or 11.9%. But bulls do not expect a selloff any time soon as the sizzling summer continues to ramp up gas power burns near record highs for this time of year.

WORKING GAS IN STORAGE

(Bcf)	Jul 8	Jul 1	2021
East	501	482	520
Midwest	586	562	636
Mountain	143	138	176
Pacific	249	240	246
South Central	890	890	993
Total	**2,369**	**2,311**	**2,572**

Source: US Energy Information Administration

US NATURAL GAS STORAGE



Source: US Energy Information Administration Lower 48 Working Underground Storage

Tom Haywood, Houston

Alberta Commits C$40 Million to CCUS Projects

The Canadian province of Alberta is investing over C$40 million (US$30.5 million) in 11 carbon capture, utilization and sequestration (CCUS) projects via its Emissions Reduction Alberta (ERA) Carbon Capture Kickstart initiative.

Should they come to fruition, the projects will reduce CO2 emissions by about 24 million tons per year, or about 10% of Alberta's annual industrial emissions output, according to the ERA.

"We are serious about advancing and commercializing CCUS technologies in this province," said Alberta Energy Minister Sonya Savage. "There's a reason Alberta has been the host of several world-first commercial projects."

ERA will fund up to 50% of each project to a maximum of C$5 million. Among the oil and gas companies receiving funds include Canadian Natural Resources and Suncor Energy.

Canadian Natural will receive C$5 million for the Oil Sands CCUS Pathways to Net Zero program, an alliance that includes Suncor, ConocoPhillips Canada, Cenovus Energy, Imperial Oil and Meg Energy.

Privately held CCS specialist Entropy, meanwhile, will receive C$3.3 million to put toward the Athabasca Leismer CCS project.

The ERA said it has so far provided C$830 million to 230 projects worth more than C$6.6 billion that could collectively deliver 40 million tons of greenhouse gas emissions reductions by 2030.

Jeffrey Cavanaugh , New Orleans

Clean Hydrogen Player Monolith Raises $300M

Clean-hydrogen producer Monolith has raised more than $300 million in its latest financing round, underscoring the continued strong interest from investors for innovative technology that can decarbonize industries.

The round was co-led by the climate investing arm of private equity giant TPG and Decarbonization Partners, a partnership between BlackRock and Temasek.

Monolith said the latest funding will be applied to "further technological development that will offer next-generation product capabilities and other corporate-level expansion."

Monolith uses a process called methane pyrolysis that converts natural gas into hydrogen and a solid form of carbon called carbon black, which is sold for other industrial uses such as tire manufacturing. All of the hydrogen produced by the plant will be turned into ammonia to make fertilizer at a nearby facility in Nebraska.

Monolith made headlines last year when it won a conditional $1 billion loan guarantee from the Department of Energy's Loans Program Office to expand the company's first commercial-scale hydrogen and carbon black plant. The loan has not yet closed, however.

The latest financing round also included investments from NextEra Energy Resources, South Korean conglomerate SK, Mitsubishi Heavy Industries America and Azimuth Capital Management. Cornell Capital and Warburg Pincus are also equity holders in the company.

"We see significant opportunity for the company to continue scaling its technology, enabling the decarbonization of a broad range of important end markets," said Meghan Sharp, global head of Decarbonization Partners.

Luke Johnson, Houston

DATA SNAPSHOT

Oil and Gas Prices, Jul. 14, 2022

All data are produced by Energy Intelligence in cooperation with Refinitiv.

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-0.47	99.10	95.31
Nymex Light Sweet	-0.52	95.78	92.83
DME Oman	+1.75	100.10	94.50
ICE Murban	+0.14	101.28	95.09

INTERNATIONAL SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+0.58	107.74	107.16
Dubai	-0.76	97.69	98.45
Forties	-2.75	109.74	112.49
Bonny Light	-2.75	113.34	116.09
Urals	-2.75	75.39	78.14
Opec Basket*			104.41

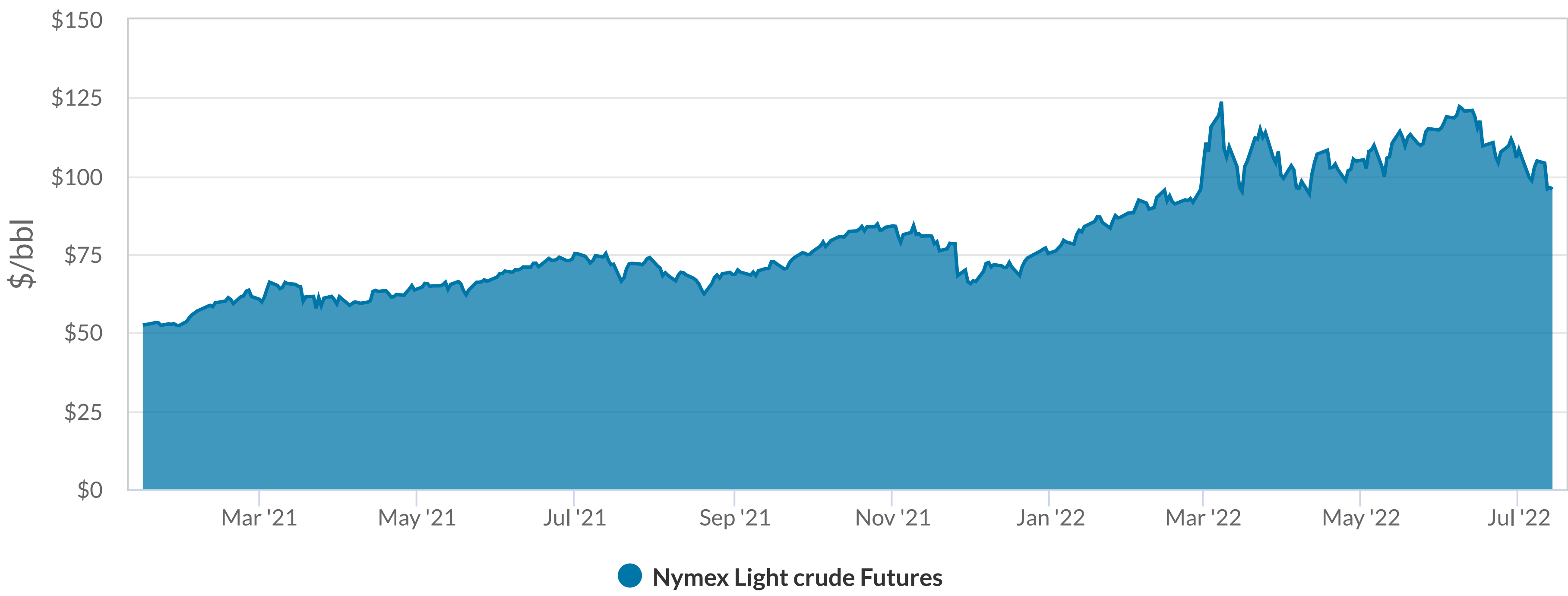
*Opec price assessed.

NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	-0.65	97.79	98.44
WTS (Midland)	-0.55	100.04	100.59
LLS	-0.60	99.84	100.44
Mars	-1.20	94.54	95.74
Bakken	-0.65	101.79	102.44

ICE BRENT CRUDE FUTURES

NYMEX LIGHT CRUDE FUTURES



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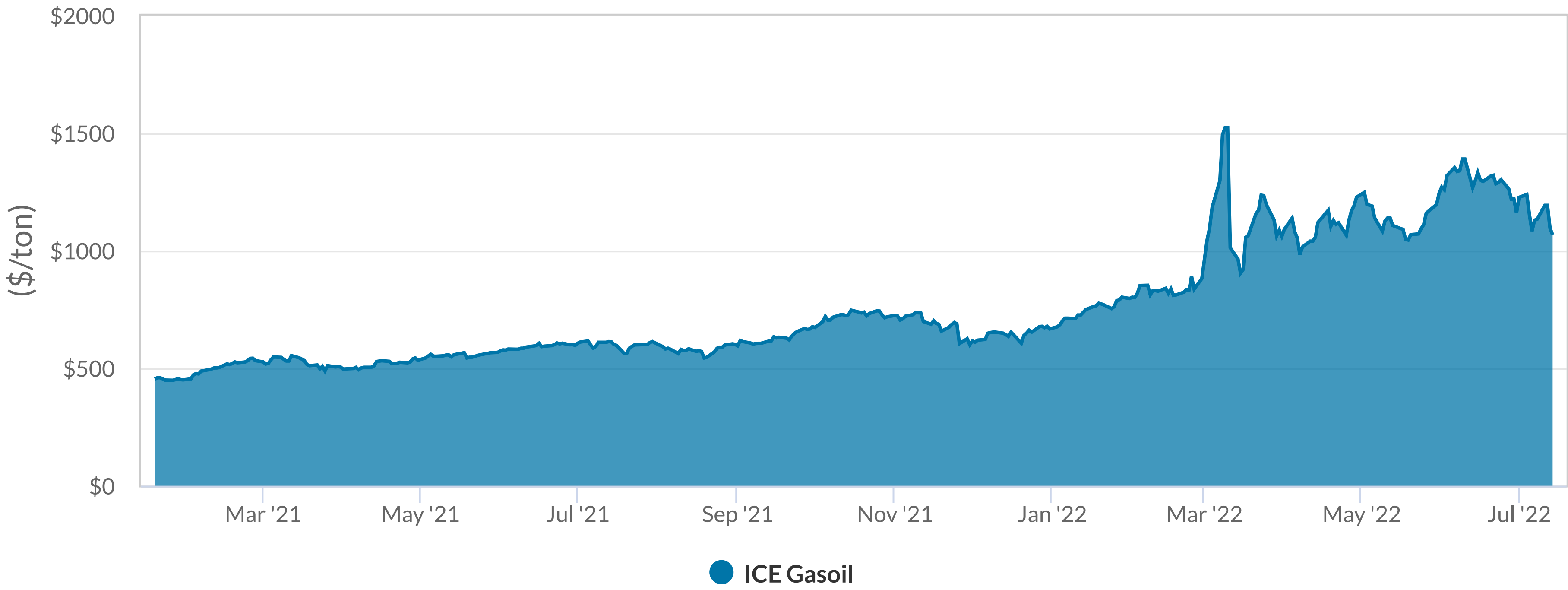
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-4.69	318.68	301.72
ULSD Diesel (¢/gal)	-1.65	364.94	356.35
ICE			
Gasoil ($/ton)	-28.25	1067.25	1034.75
Gasoil (¢/gal)	-9.02	340.63	330.25

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES

US SPOT REFINED PRODUCTS

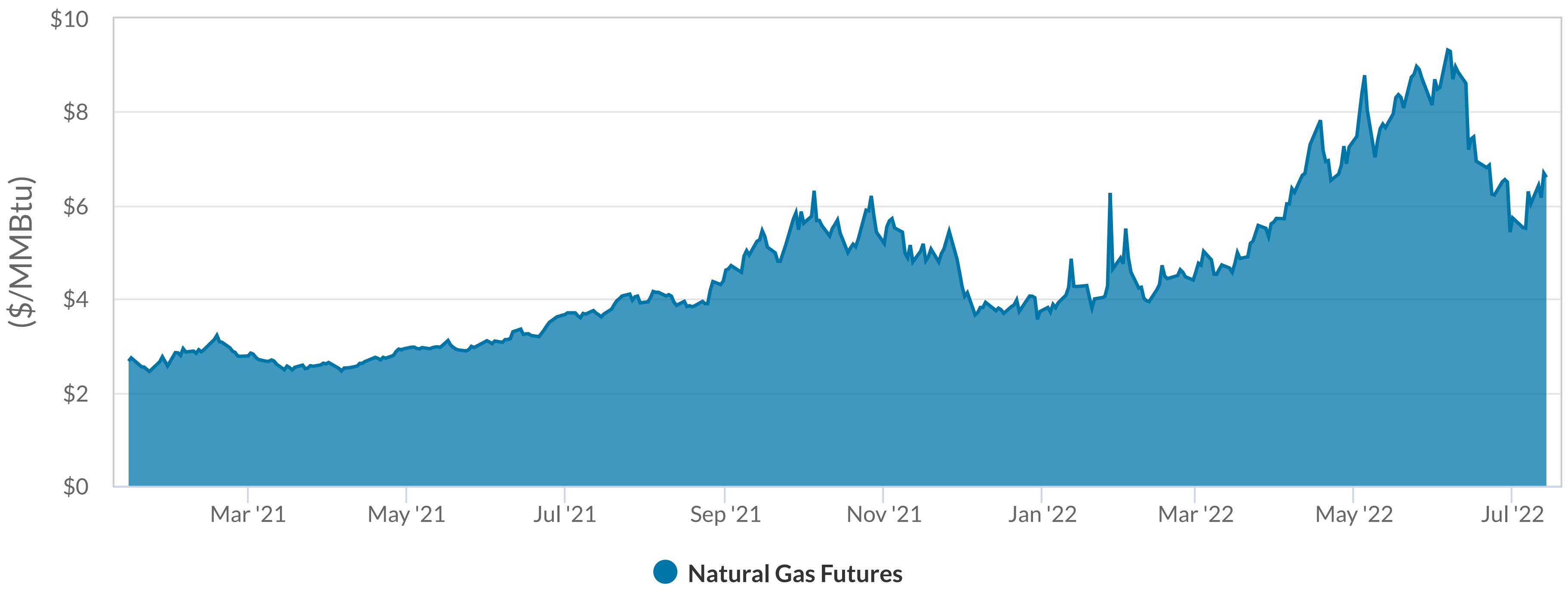
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	-4.53	339.35	343.88
No.2 Heating Oil	-0.38	358.54	358.92
No.2 ULSD Diesel	-1.38	375.29	376.67
No.6 Oil 0.3% *			108.08
No.6 Oil 1% *			95.18
No.6 Oil 3% *			80.78
Gulf Coast (¢/gal)			
Regular Gasoline	-4.53	314.85	319.38
No.2 ULSD Diesel	-0.63	367.79	368.42
No.6 Oil 0.7% *			96.38
No.6 Oil 1% *			96.38
No.6 Oil 3% *			76.73

*Price in $/bbl. Percentages refer to sulfur content.

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	-20.50	1043.80	1064.30
ULSD Diesel	-33.75	1145.00	1178.75
Singapore ($/bbl)			
Gasoil	-5.42	133.94	139.36
Jet/Kerosene	-4.16	133.22	137.38
VLSFO Fuel Oil ($/ton)	-9.72	872.00	881.72
HSFO Fuel Oil 180 ($/ton)	-1.94	466.70	468.64

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	-0.09	6.60
Henry Hub, Spot	+0.22	6.86
Transco Zone 6 - NY	0.00	6.05
Chicago Citygate	+0.13	6.60
Rockies (Opal)	+0.24	6.57
Southern Calif. Citygate	+0.27	7.94
AECO Hub (Canada)	+0.47	4.22
Dutch TTF (euro/MWh)	-4.10	178.50
UK NBP Spot (p/th)	-31.75	245.25

US/Canada spot prices from Natural Gas Week

Equity Markets, Jul. 14, 2022

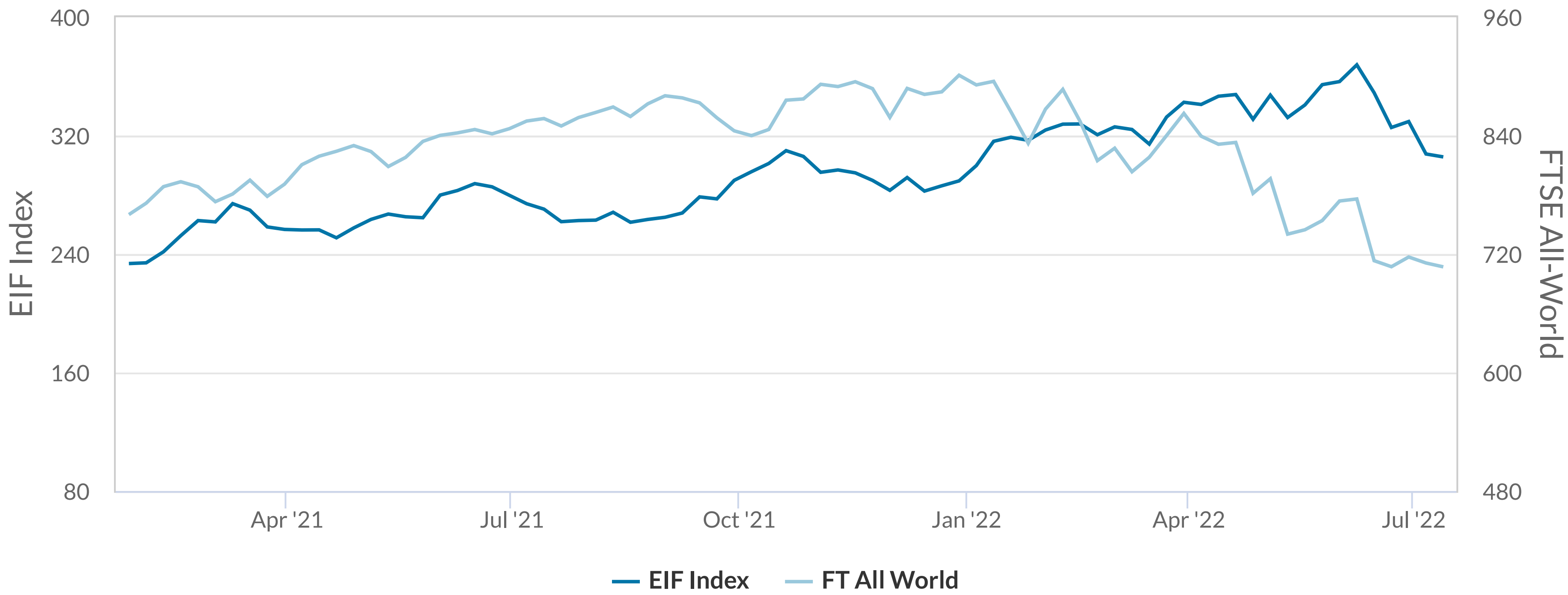
All data are produced by Energy Intelligence in cooperation with Refinitiv.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	-1.30	305.63	+5.93
S&P 500	-11.40	3,790.38	-20.92
FTSE All-World*	-2.06	707.08	-21.54

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities