Energy Intelligence

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In Brief

Data Snapshot

Buffett Cleared to Acquire Up to Half of Oxy

Warren Buffett's Berkshire Hathaway firm received federal approval last week to acquire up to half of the common stock of Occidental Petroleum, adding fuel to market speculation that the billionaire investor plans to take over the oil giant.

In an order issued Friday, the Federal Energy Regulatory Commission (FERC) agreed with Berkshire's statements that the acquisition is in the public interest. The agency had already authorized Berkshire to acquire up to 25% of Occidental earlier this year.

Berkshire's stake in Oxy recently crossed the 20% threshold, allowing it to significantly influence the company's operations. That does not include $10 billion in preferred shares and $5 billion in warrants that Berkshire previously acquired in exchange for capital to help fund Oxy's 2019 acquisition of Anadarko Petroleum.

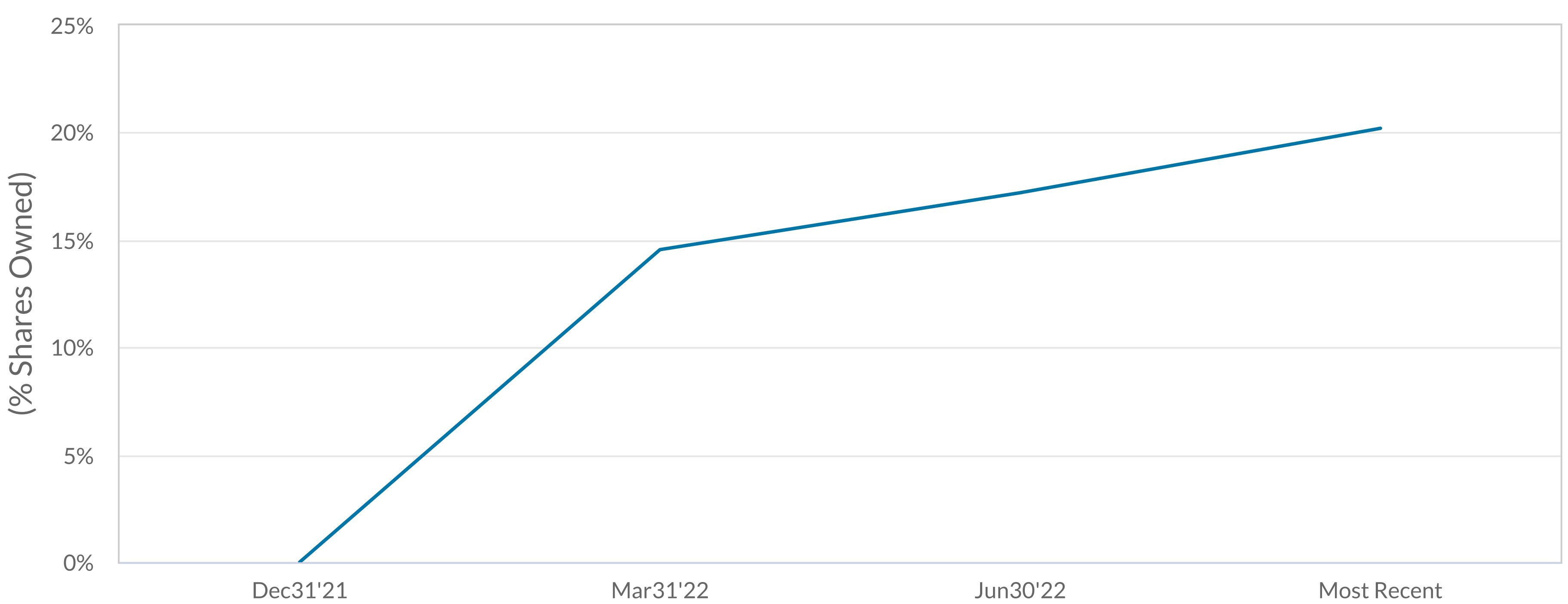
The move comes as the oil industry continues to see itself, and its shares, as undervalued by investors that have fled the energy space in recent years. Oil and gas firms plan to invest billions of dollars this year and next through share buybacks to demonstrate their belief that stock prices will improve.

Berkshire Hathaway's recent push to increase its Oxy holdings could reflect that belief, according to Dan Pickering, founder of advisory firm Pickering Energy Partners.

"The implication here is ... Berkshire Hathaway has a more constructive 5-20-year view on oil and gas than the market does," he told Energy Intelligence. "Why would they be buying the stock otherwise?"

Others simply believe that the demands of public investors to keep growth in check are too constraining in the current commodity price upcycle. Continental Resources Chairman Harold Hamm in June launched an offer to snatch up the remaining shares in the company that he and his family don't already own.

BERKSHIRE HATHAWAY MAKES AGGRESSIVE ENTRY INTO OXY



Source: Refinitv, Energy Intelligence

“The opportunity today is with private companies, [which] have the freedom to operate and are not limited by public markets,” he emphasized at the time.

Other public firms are also said to be considering the advantages of going private.

Why Oxy?

Truist Securities Analyst Neal Dingmann first speculated in June that there was a good chance Oxy could be taken private by Buffett. The company is on a strong path toward achieving an investment grade rating this year as it pays off debt and generates more cash.

“Berkshire [Hathaway] Energy currently highlights its significant geographic, regulatory and resource diversity that limits exposure to the impacts of disruptions, improving the predictability of financial results and reducing business risk, as more than 80% of adjusted earnings is from investment-grade businesses,” Dingmann wrote at the time.

Pickering noted that the whole sector is quite attractive these days, as commodity prices are high but reinvestment rates are low, allowing operators to throw more cash off to investors.

Oxy’s Low-Carbon Ventures (OLCV) arm, which is pursuing new technologies such as direct air capture, also offers optionality to invest long-term in the energy transition. And the unit is essentially self-funded by cash from Oxy’s oil and gas operations, so it’s cheaper than investing in venture capital, he added.

However, “Low-Carbon Ventures … may be a profitable option, it may expire at zero, we don't know," said Pickering. "But it's probably not a make-or-break decision in a 'take-private' sort of discussion.”

A version of this story was originally published in Oil Daily sister publication Energy Intelligence Finance.

Caroline Evans, Houston

Oil Prices Steady After Front-Running Slowdown Risks

Oil futures traded sideways on Monday, with Brent hovering around $96 per barrel for a third consecutive session.

The benchmark seems to have found a floor just north of $93/bbl after a nearly three-week streak of selloffs.

In London, the October Brent contract was down 24¢ and settled at $96.48/bbl, while in New York, the front-month Nymex West Texas Intermediate (WTI) October contract shed 54¢ and closed at $90.23/bbl.

Strong Signals

The energy market is sending strong signals that higher prices could be here to stay. As central banks consider “front-loading” a series of aggressive interest rate hikes to reign in inflation, the risk that several economies make a hard landing into recession territory looms larger.

Central bankers have gathered in Jackson Hole, Wyoming for their annual Economic Policy Symposium, where later this week US Federal Reserve Chair Jerome Powell will offer crucial insights on how it thinks the market reads its intentions.

The continuous selloff of crude oil futures in recent weeks reflects a combination of supply resilience from Russia, demand weakness due to lower consumer confidence and higher energy prices, and a lack of economic impetus from China.

“It doesn’t really add up to the fundamentals, where we see diesel and gasoline margins moving higher again, and the gas-to-fuel switching is adding strength to demand,” said Ole Hansen, head of commodity strategy at Saxo Bank.

Nevertheless, the paper market has been selling oil in anticipation of an economic slowdown.

Forced Closures

In Europe, Germany is struggling with gas-to-fuel switching because of low water levels in the Rhine River, which essentially shuts down a vital lifeline for refined products shipping from the Amsterdam-Rotterdam-Antwerp storage hub.

The resulting surge in natural gas prices — Dutch TTF gas spiked to more than $400/bbl of oil equivalent last week — has prompted some industrial buyers in Germany to stop buying power and gas forward contracts — that is, to stop hedging their fuel costs.

If prices don't fall, some of them may stop producing altogether. A zinc smelter owned by Trafigura's offshoot Nyrstar in the Netherlands and an aluminium smelter owned by Norsk Hydro in Slovakia have already shut their primary production lines due to soaring energy costs.

In China, a severe drought has resulted in power outages in the province of Sichuan, where hydroelectricity is the main source of supply. Power supplies to factories have been stopped to protect domestic users, paralyzing industrial activity just as the country is in dire need of a strong economic rebound.

Weak Sentiment

The toll of higher prices on demand is becoming increasingly visible elsewhere as well. Global oil demand stood at 98.8 million b/d in July, or 2 million b/d below global supply, Energy Intelligence balances show. The stretch of oversupply partly accounts for the recent recoil in crude prices.

The change in mood has also eroded the price structure, with the Brent prompt premium literally melting away from $6.04 at the end of July to 49¢ on Monday.

"The sharply narrowing backwardation suggests bearish factors are still dominating current market sentiment," wrote PVM Oil analyst Stephen Brennock.

Julien Mathonniere, London

Diplomacy Heats Up as Iran Awaits US Response

Diplomacy around the Iran nuclear deal gained momentum over the weekend, although the US has yet to formally respond to the "final text" for an agreement that the EU tabled two weeks ago and Tehran's reaction to it.

US President Joe Biden held talks on Saturday with the leaders of France, Germany and the UK, the three European countries that were signatories to the original 2015 agreement, or Joint Comprehensive Plan of Action (JCPOA).

"Ongoing negotiations over Iran's nuclear program" were discussed, as well as "the need to strengthen support for partners in the Middle East region and joint efforts to deter and constrain Iran's destabilizing regional activities," the White House said.

A day earlier, South Korea's vice foreign minister Cho Hyun-dong held separate phone calls with the chief negotiators of the US and the EU, the Yonhap news agency reported, with Cho reaffirming Seoul's support for restoration of the JCPOA.

Doing so would enable $7 billion of Iranian funds locked in two South Korean banks to be released and allow South Korea to resume imports of Iranian condensate, of which it was the largest buyer before sanctions were reimposed in 2018.

Despite the gathering diplomatic momentum — Mohammad Marandi, who has worked with Iran's negotiating team, talked about a "real chance" of a deal — there remains deep mistrust between the US and Iran.

And there is strong opposition in both countries to reviving the JCPOA, which could yet hamper efforts to close the remaining gaps.

Delivering on the Deal

Iran's biggest concern, Marandi told Energy Intelligence, is not that the next administration might pull the US out of the deal again — as former President Donald Trump did in 2018 — but whether the Biden administration would deliver on the deal.

"The Iranians don't want to be exposed to legal mistakes and shortcomings in the text [as they were last time]. So, the open issues are still significant in their own way," he said.

When the 2015 agreement was implemented, Iranian officials repeatedly said that sanctions relief was more limited than they had expected. The proposed EU text that is now being discussed is substantially similar to the March version of the deal that Washington was prepared to sign on to, US officials have said.

US officials are currently working on a response to concerns raised by Iran that were sent via the EU last week, State Department spokesperson Ned Price said on Monday.

"Had there been a clean Iranian response, a clear 'yes' answer, I'm not sure that we would be in a back and forth the way we are now," Price said.

Unconfirmed reports indicate that any deal would be implemented over a four-month period, with the US providing some sanctions relief early in the process — unlike the original JCPOA — in a nod to Tehran's insistence on sanctions relief being "verified."

This could involve Iran exporting up to 50 million barrels of oil during the implementation period — just over half of the estimated 90 million bbl of crude that the country holds in storage.

In return, Iran would have to take initial steps to curb its nuclear program, such as removing advanced centrifuges or exporting stockpiles of highly enriched uranium.

Iran's foreign ministry spokesman Nasser Kanaani insisted on Monday that the West needed a deal more than Iran, and that however the negotiations play out, Tehran would "pursue the expansion of ties with neighboring states and other nations."

Kanaani also said Iran was willing to discuss prisoner swaps with the US outside of the nuclear talks. Others have indicated that this issue, while technically separate from the implementation of any deal, would likely be integral to it in practice.

Regional Diplomacy

Meanwhile, there are signs of mounting frustration in Israel at the growing prospects of a deal that would be an economic boon for its archenemy.

Prime Minister Yair Lapid has urged European leaders to resist an agreement that he says would "pave the way for significant investment to flow into Iran's terrorist network" and strengthen its military.

Lapid told German Chancellor Olaf Scholz last week that Europe must oppose efforts by Iran to buy time in the negotiations. And in a call with French President Emmanuel Macron on Monday, he said Israel would not be obligated by a revived JCPOA.

Price said Israel and the US share "deep concerns about the state of Iran's nuclear program."

"We continue to believe that a mutual return to compliance with the JCPOA is the most effective means by which to address those concerns," he added.

For its part, Iran has succeeded in tightening ties with some of its Mideast Gulf neighbors lately, in ways that could be seen as countering Israel's own efforts to strengthen its presence in the region.

Over the past week, Kuwait and the United Arab Emirates (UAE) both appointed ambassadors to Tehran for the first time since 2016, with the UAE saying its move would help further "the common interests of the two countries and the wider region."

"The UAE, across a number of issues, has demonstrated time and again that it can play a constructive role in resolving and de-escalating sources of regional tension, including by enhancing its diplomatic ties," Price said.

"There is a broader trend towards de-escalation in the region. It's a trend we fully support," he added.

The UAE, and its port of Fujairah, in particular, have long been a vital conduit for Iran's clandestine oil exports, and last year the UAE became the biggest exporter to the Islamic republic.

"Improved relations between the UAE and Iran are obviously good for both countries. It does provide a new opportunity, especially since talks are moving towards a deal," said Marandi.

Simon Martelli, London; Oliver Klaus, Dubai; and Emily Meredith, Washington

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ProPetro Builds E-Fracking Fleet With Lease Deals

Pressure-pumper ProPetro is expanding its fleet of electric-powered hydraulic fracturing units, reflecting the growing demand for low-emissions oil-field equipment.

Midland-based ProPetro said Monday that it ordered two electric fracking fleets on long-term lease agreements from a "leading manufacturer."

CFO David Schorlemer said its leasing agreement "includes an option to purchase each fleet at the end of its respective lease term."

Leasing allows ProPetro to pass the capital risks of building new equipment directly to customers. Despite extremely tight supplies of e-frack equipment, most pressure pumpers have said they will not spend capital to add capacity without firm contracts in hand.

"This agreement is another important step in our strategic plan of transitioning to emissions-friendly services using capital efficient financing terms," Schorlemer said in a statement Monday.

CEO Sam Sledge said the company is "in discussions with several customers regarding multi-year projects that will use these electric fleets," echoing the bullishness he expressed on the company's recent second-quarter earnings call.

"Our conversations with our customers suggest that demand for this equipment is high and sustainable," Sledge said early this month. "We're expeditiously working to meet that demand and expect to provide a reliable electric solution for our customers in 2023."

ProPetro expects the leased e-frack fleets to be delivered in the third quarter of 2023.

Soaring Demand

ProPetro is expanding its fleet as demand for electric fracking booms, particularly in the Permian Basin, its core operating area.

The use of more electricity- and natural gas-powered equipment in the oil field has emerged as a key part of many shale players' plans to decarbonize their operations.

The electric fleets can also offer lower operating costs. ProFrac estimates that the monthly fuel and equipment costs for one of its new electric fracking fleets can be over 40% lower than a diesel-powered unit.

"The demand for electric solutions from efficient frack providers is gaining momentum and ProPetro plans to play a significant role in the electric future of the Permian Basin," Sledge said.

Jeffrey Cavanaugh, New Orleans

IN BRIEF

US Court Upholds ConocoPhillips' $8.7B Arbitration

A US court upheld a tribunal's $8.75 billion award to oil producer ConocoPhillips over the expropriation of its Venezuelan oil assets, granting a default judgment in the case on Friday.

The decision gives the company new authority to collect on a 2019 award by a World Bank tribunal. The award includes interest that adds at least $1 billion to the amount owed to ConocoPhillips.

The World Bank's International Centre for Settlement of Investment Disputes awarded Conoco $8.75 billion over the 2007 expropriation of three of its oil projects in the country. ConocoPhillips had sought up to $30 billion for the takeover.

Venezuela's Ministry of Mines, state oil firm PDVSA and the Ministry of Information did not immediately respond to a request for comment. The country seized ConocoPhillips' assets last decade during late President Hugo Chavez's nationalizations of the oil, electricity and steel industries.

Venezuela was bound by the terms of the ICSID Convention and ConocoPhillips had properly notified the country of its lawsuit through the US Department of State, US District Court Judge Carl Nichols said in his decision.

ConocoPhillips said it plans "to pursue all available legal avenues to obtain a full and fair recovery," but did not comment on planned actions.

Venezuela's main foreign asset is US-based Citgo Petroleum, an oil refiner that split from its parent in 2019 and has been operating under legal protections from creditors issued by the US Treasury Department. (Reuters)

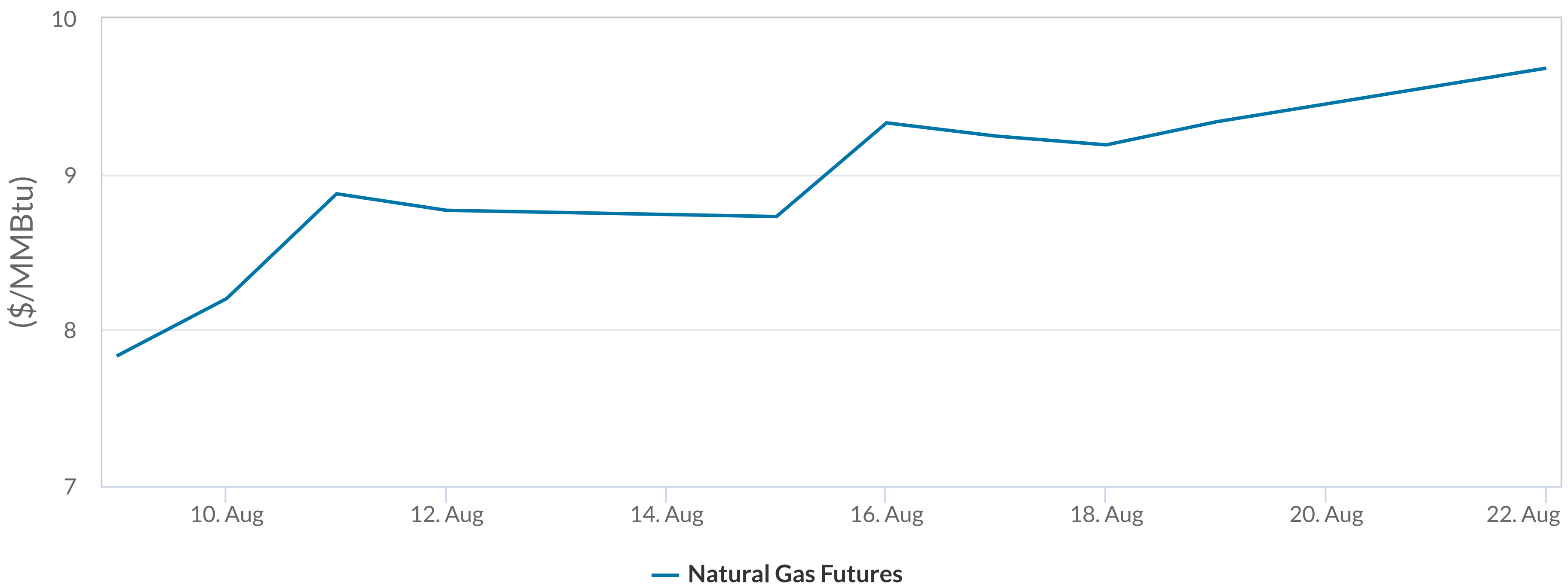
US Natgas Futures Breach $10

US natural gas contracts for the coming winter breached $10/MMBtu resistance in early trading, shoring up the bullish narrative of a very tight winter market to come.

Prompt month September futures just brushed the mark, topping out at $9.982. The prompt month settled up 34.4¢ at $9.68/MMBtu as the forward curve set fresh 14-year highs.

The November through January contracts crested $10 at times and settled 31¢-33.2¢ higher. January closed at $9.862/MMBtu.

NYMEX NATURAL GAS FUTURES



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Momentum now appears to be with the bulls, even if the fundamentals aren't. With summer gas demand fading and production rising, the storage deficit could narrow dramatically in September and October.

It's hard to say at this juncture how much storage gas will be called on to supply US winter needs on top of a 13 Bcf/d in LNG exports.

Nonetheless, bearish market sentiment is bound to assert itself once storage injections rise above the norm, beginning this week. And if forecasts for a warm start to winter are verified, another leg of the bulls' rally could collapse.

Tom Haywood, Houston

PDVSA Restarts Cardon Gasoline Output

Venezuelan state oil company PDVSA has restarted gasoline production at the country's second largest refinery after repairing a breakdown, five sources with knowledge of the operation said on Monday.

The Cardon refinery's naphtha reformer, with a capacity of 45,000 b/d, produces high-octane components for gasoline and is key to the country's gasoline supply. PDVSA commissioned it with an output of about 28,000 b/d about a fortnight ago. The reformer "is already producing," one source told Reuters.

PDVSA did not immediately respond to a request for comment.

The reformer suspended production at the end of June to undergo maintenance that extended beyond the 21 days originally scheduled.

"We are producing 28,000 b/d of pure lomito (high-grade gasoline) of 102 octane," said another source.

Cardon's 88,000 b/d capacity fluid catalytic cracking (FCC) unit remains stalled, the sources said.

A restart would provide relief to ongoing supply failures in the nation, whose 1.3 million b/d grid has been crippled by years of disinvestment and lack of maintenance.

The Amuay refinery and Cardon make up the Paraguana Refining Center in the western state of Falcon, which has a combined production capacity of 955,000 b/d. The catalytic cracker was operational at Amuay.

The El Palito refinery on the country's central coast, the smallest in the Venezuelan refining circuit, halted gasoline production at the end of 2021.

In May, an agreement was announced between Iran's state-owned National Iranian Oil Engineering and Construction Co. and Venezuela to repair the refinery. (Reuters)

DATA SNAPSHOT

Oil and Gas Prices, Aug. 22, 2022

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	-0.24	96.48	95.81
Nymex Light Sweet	-0.54	90.23	90.36
DME Oman	+0.27	96.42	94.17
ICE Murban	-0.02	97.52	95.71

INTERNATIONAL SPOT CRUDES

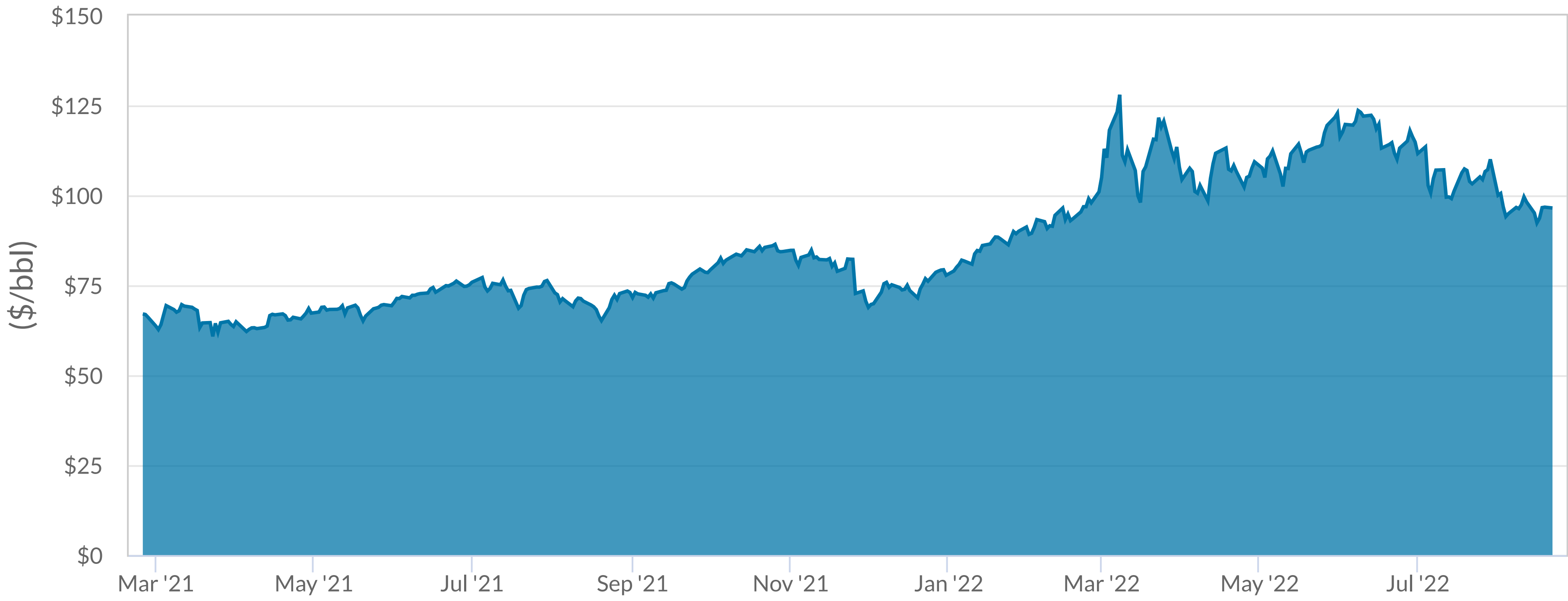
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	-1.38	95.06	96.44
Dubai	-0.40	93.95	94.35
Forties	-4.07	92.40	96.47
Bonny Light	-3.72	97.85	101.57
Urals	-3.22	74.85	78.07
Opec Basket*			99.66

*Opec price assessed.

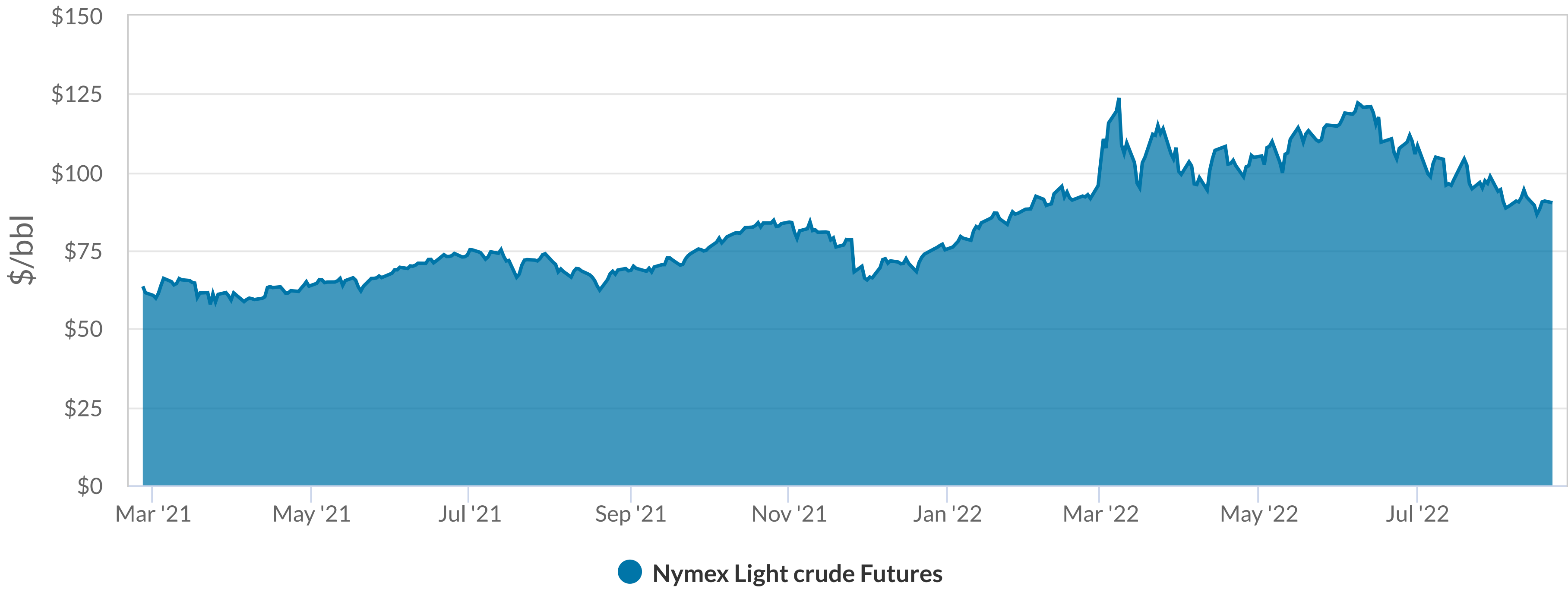
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	-0.13	93.42	93.55
WTS (Midland)	-0.48	93.62	94.10
LLS	+0.17	96.02	95.85
Mars	+0.02	90.92	90.90
Bakken	+0.37	97.67	97.30

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES



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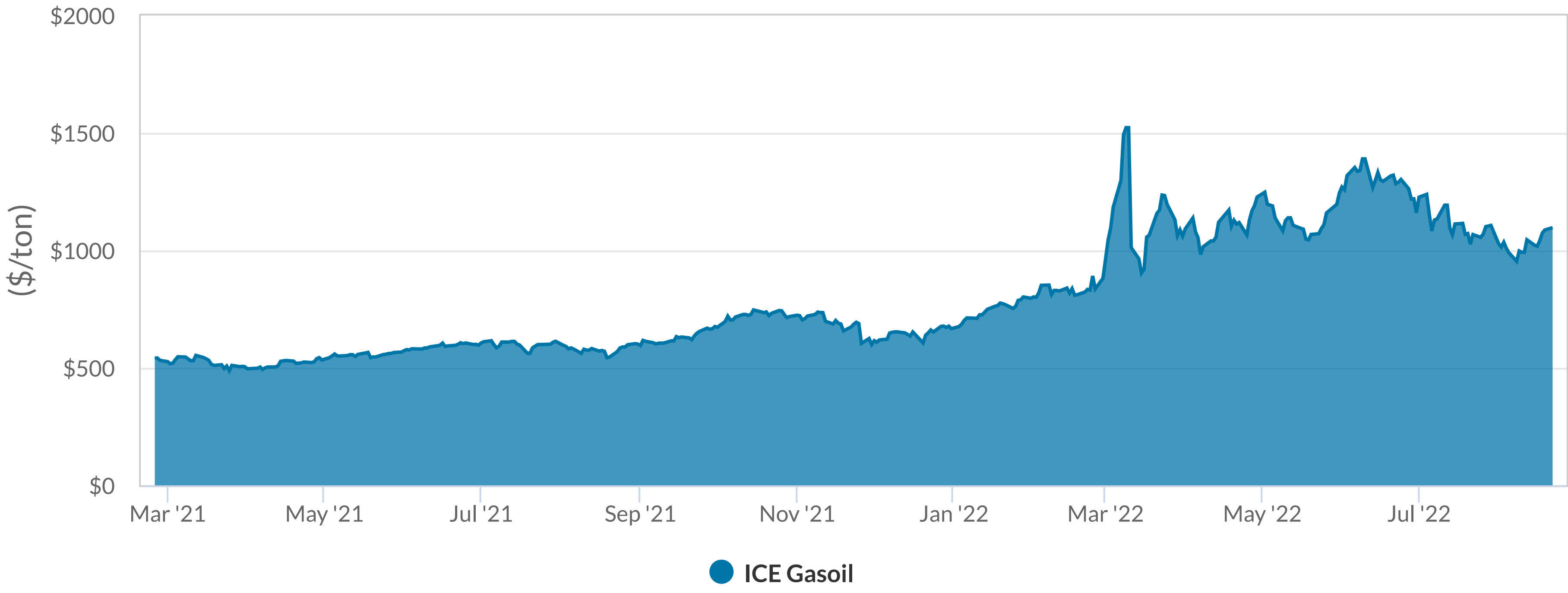
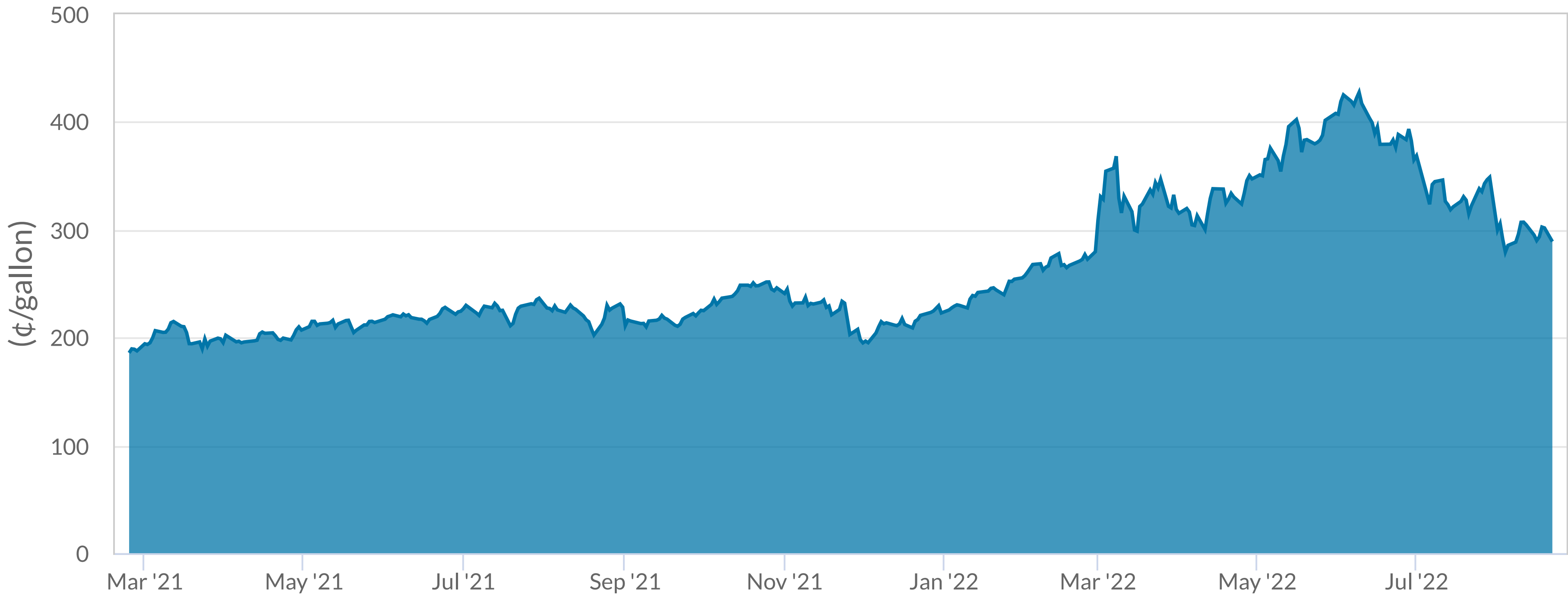
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	-12.63	289.12	268.22
ULSD Diesel (¢/gal)	+7.57	377.62	373.84
ICE			
Gasoil ($/ton)	+9.50	1096.75	1083.50
Gasoil (¢/gal)	+3.03	350.04	345.81

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

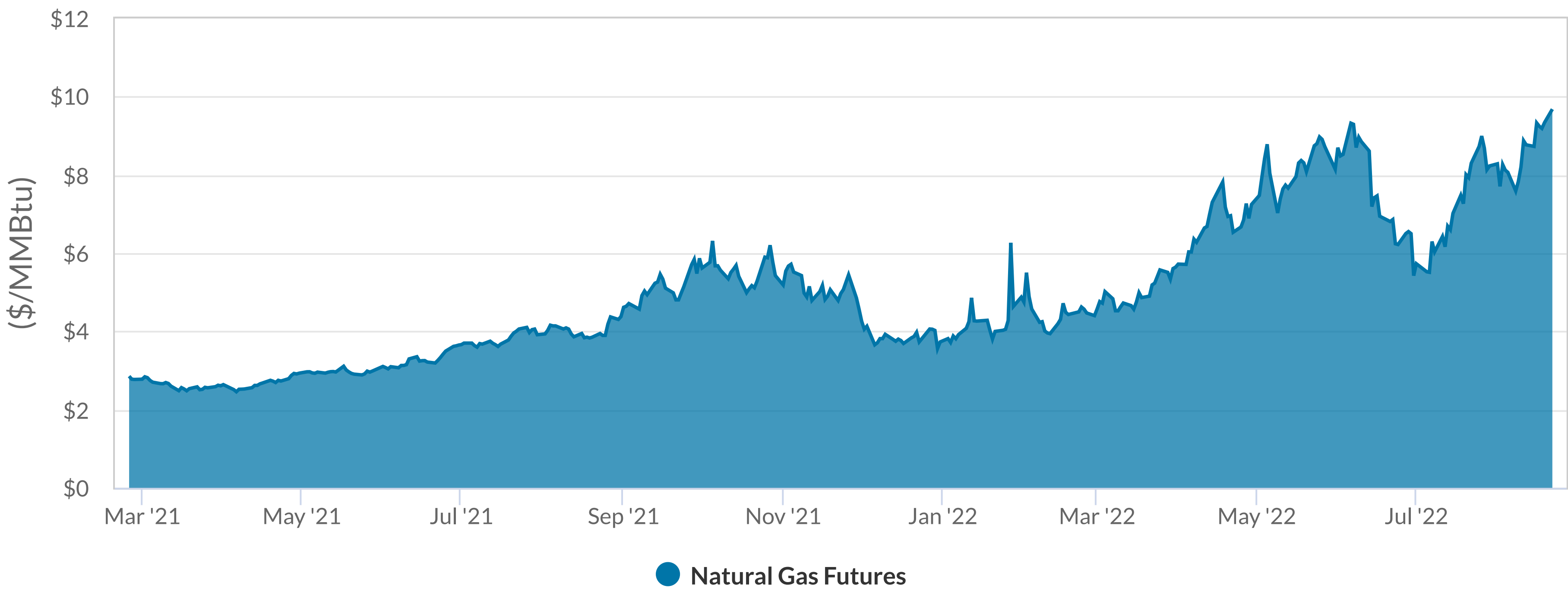
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	-10.76	292.03	302.79
No.2 Heating Oil	+8.05	359.67	351.62
No.2 ULSD Diesel	+7.68	376.55	368.87
No.6 Oil 0.3% *			98.35
No.6 Oil 1% *			89.63
No.6 Oil 3% *			83.93
Gulf Coast (¢/gal)			
Regular Gasoline	-10.51	272.78	283.29
No.2 ULSD Diesel	+7.55	370.67	363.12
No.6 Oil 0.7% *			91.68
No.6 Oil 1% *			91.68
No.6 Oil 3% *			79.13

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	-31.80	918.50	950.30
ULSD Diesel	+24.50	1113.50	1089.00
Singapore ($/bbl)			
Gasoil	+2.46	135.43	132.97
Jet/Kerosene	+2.26	135.55	133.29
VLSFO Fuel Oil ($/ton)	-4.08	706.46	710.54
HSFO Fuel Oil 180 ($/ton)	+4.76	483.97	479.21

NYMEX NATURAL GAS FUTURES



Refinitiv

NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.34	9.68
Henry Hub, Spot	+0.70	9.83
Transco Zone 6 - NY	+0.73	8.86
Chicago Citygate	+0.46	8.94
Rockies (Opal)	+0.62	8.85
Southern Calif. Citygate	+1.18	9.98
AECO Hub (Canada)	-0.68	0.02
Dutch TTF (euro/MWh)	+27.00	272.00
UK NBP Spot (p/th)	+123.00	484.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Aug. 22, 2022

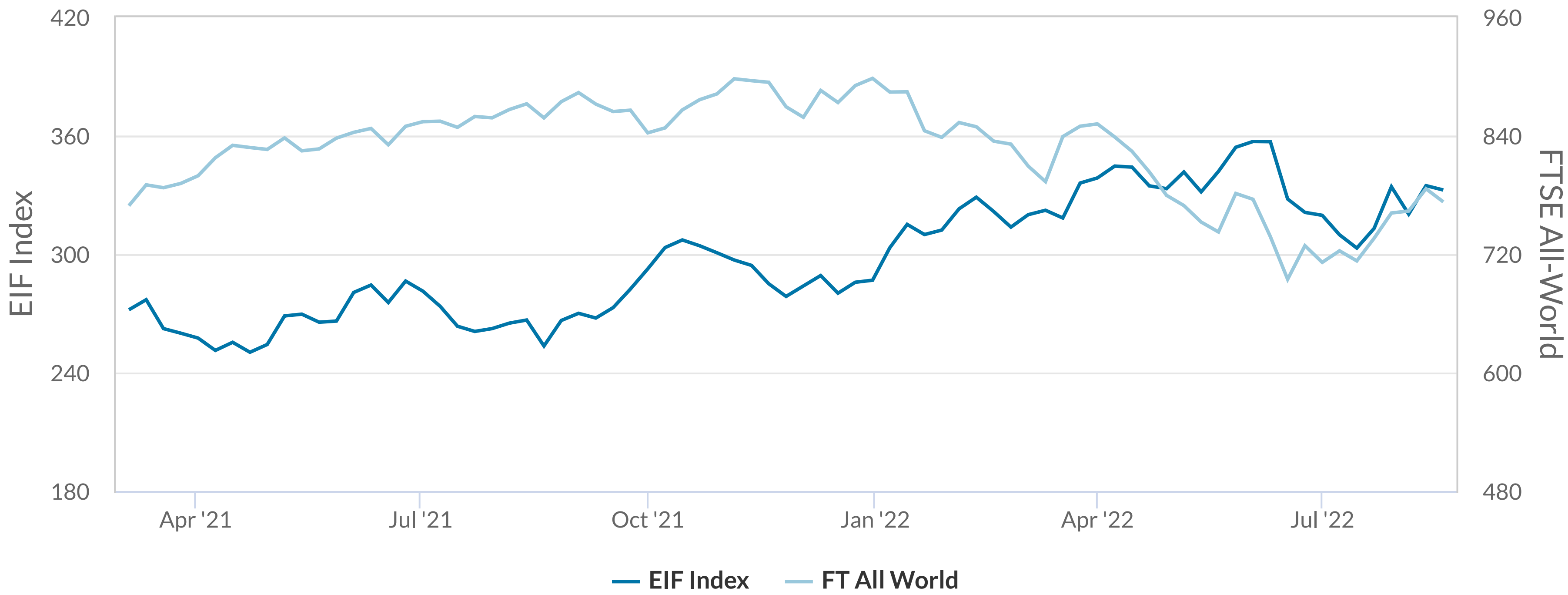
All data are produced by Energy Intelligence in cooperation with Refinitiv.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	-2.00	332.47	+15.94
S&P 500	-90.49	4,137.99	-13.67
FTSE All-World*	-10.65	772.93	-14.23

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities