Energy Intelligence

September 14, 2021

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OIL DAILY®

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Chevron Embraces Its Brand of Low-Carbon Energy

Anyone looking to see Chevron follow its European peers into renewable electricity is sure to be disappointed by the US major's transition strategy update. But management is confident it is giving investors something they can't easily find elsewhere.

"I think the majority of [our] shareholders believe that they can diversify into [the renewable electricity] sector more efficiently than [Chevron] management can do for them," CEO Mike Wirth told reporters on the virtual sidelines of Chevron's Energy Transition Spotlight event on Tuesday when asked about his recent conversations with investors. "What's harder for them is to find good investments in renewable fuels, in hydrogen [and] in carbon capture."

It is exactly those three pillars — alongside reductions in its current carbon intensity — that Chevron is pitching to investors as part of a now-accelerated low-carbon investment program. Wirth insists he is "finding support" for this approach among shareholders, even if some will still demand it embrace electrification instead.

"If we look at renewable power, it's hard to find even levered returns that get into the double-digits on wind and solar," Wirth told analysts following the presentation. By contrast, Chevron says it can already achieve double-digit returns on the low-carbon ventures it is pursuing and expects them in future ventures as well.

The secret? Integration and the prioritizing of advantaged markets.

Hard Targets, Higher Spending

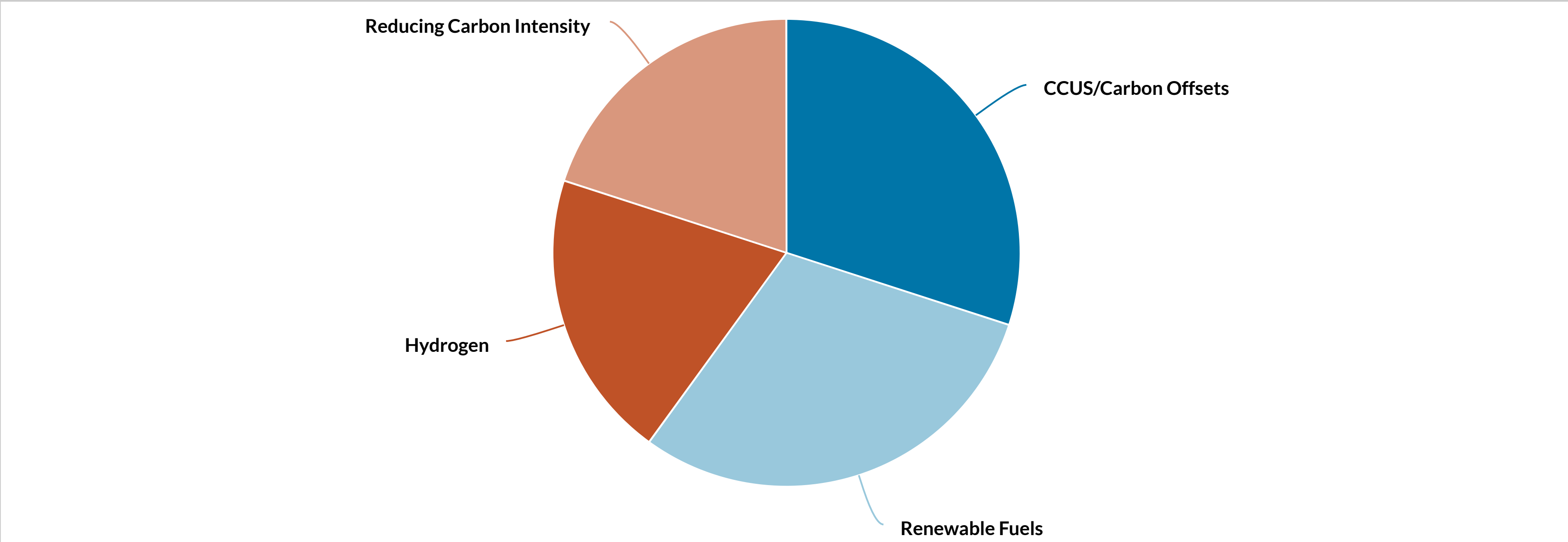
The biggest change Chevron has made to its low-carbon plans is its pace of spending.

The company will now devote about 8% of its capital expenditure through 2028 to its new energy businesses, up from 2% outlined previously.

That higher spend will allow it to add new targets for carbon capture, utilization and storage (CCUS) and hydrogen production, as well as grow its renewable diesel and sustainable aviation fuel output at a faster clip:

CHEVRON'S LOW-CARBON SPENDING

$10 Billion Through 2028



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How Chevron’s Plans Compare

Hydrogen: Chevron’s 150,000 ton per year production target is about 20% lower than Repsol’s, but Chevron is one of the few to provide a hard target. Royal Dutch Shell and BP have spoken vaguely of capturing certain market share rates.

CCUS: Chevron's 25 million ton/yr capacity goal matches Shell’s, but Chevron's target is for 2030 rather than 2035. It is five times higher than TotalEnergies’ 2030 target. Exxon Mobil has a CCUS cost reduction target for 2030 but not a capacity target.

Biofuels: Chevron's 100,000 barrel per day capacity target is roughly 40% higher than Total’s. Shell and BP talk of growth in general terms. Exxon’s 40,000 b/d goal is for 2025.

Renewable natural gas: Total, BP and Shell have modest investment in RNG but do not plan on becoming a market leader in the US as Chevron does.

Chevron's Low-Carbon Strategy Targets

	Previous	New
Total Capital Expenditure (annual from 2022)	$14 billion-$16 billion	$15 billion-$17 billion
Low-Carbon Capital Investment (2021-28)*	$3 billion	$10 billion
% Capex on Low-Carbon Ventures	2%	8%
Renewable Natural Gas (RNG)	10x volume growth by 2025	10x volume growth by 2025
	--	>40 MMcf/d by 2030
Biofuels	2x volume growth by 2025	3x volume growth by 2025
	--	100,000 b/d by 2030
Hydrogen	--	150,000 tons/yr by 2030 (equity)
Renewable Base Oils/Lubricants	20x volume growth by 2025	20x volume growth by 2025
	--	100,000 tons/yr by 2030
CCUS	--	25 million tons/yr by 2030 (equity)
GHG Emissions Intensity	35% reduction in upstream intensity by 2028 (2016 baseline)	35% reduction in upstream intensity by 2028 (2016 baseline)

*Figures include $300 million invested in Chevron's low-carbon venture capital fund. CCUS = carbon capture, utilization and storage; GHG = greenhouse gas.
Source: Chevron press releases, presentations

Addressing Scope 3

Chevron’s strategy update did not concretely explain what impact its accelerated low-carbon investments will have on the full life-cycle emissions of its products. Those details will instead be featured in next month’s climate report. But the US major’s strategy is not ignoring so-called Scope 3 emissions despite the lack of figures. That's because the emissions of its customers will be reduced as they consume the lower-carbon alternatives Chevron will blend into or use to replace its conventional supplies.

In fact, Energy Intelligence understands that one reason why Chevron is particularly focused on hydrogen to support harder-to-electrify segments of global transportation — heavy-duty trucking, rail and marine transport — is its potential as a near-carbon-neutral fuel, assuming the hydrogen is produced using renewable electricity or with CCS.

The big outstanding question is whether the majority of shareholders will accept the pace of Chevron's life-cycle emissions reductions. More than 60% voted in favor of a shareholder resolution calling on the company to meaningfully reduce these emissions — although the resolution did require specific targets to be set or hit.

The absolute reduction in Chevron's life-cycle emissions will be limited this decade given that it is building out nascent businesses, rather than jumping into already-established solar and wind power generation.

But Wirth said he hopes that the cost-cutting, demand build-out and policy support that would be required for these sectors to take off even faster happens — in which case Chevron can potentially invest more.

Casey Merriman, Phoenix

Alliance Refinery Faces Uncertain Future

Phillips 66 may end up idling its Alliance refinery near Belle Chasse, Louisiana, market players and watchers say, after it was damaged by Hurricane Ida.

The 255,000 barrel per day facility suffered significant damage during the massive storm and remains shut down over two weeks later. An engineer — not employed by the company — and others told Energy Intelligence that the cost of repairing the refinery could be significant enough that idling might be a better option.

The engineer said the facility could also be converted into a terminal or biofuels plant.

Phillips 66 was already planning to offload Alliance as part of its broader strategy to reduce its carbon emissions and create greener fuels amid the ongoing energy transition. The company had already put the refinery up for sale just days prior to Ida's landfall.

The potential idling of the Alliance refinery highlights the effects not only of intensifying storms as climates change but also the impacts of the ongoing shift to a "greener" lower-carbon energy economy. After Hurricane Katrina, for example, heavily damaged refineries were repaired and put back into service rather than idled, even though the cost of such repairs was high.

Storm Surge

Hurricane Ida shuttered a vast swath of refining capacity in Louisiana and closed ports for days, and much of the infrastructure in the region has yet to resume normal operations.

But while many facilities experienced mild damage or suffered from power outages, the situation at the Alliance refinery was more dire.

The facility was flooded as water breached its levees, and inside the refinery gate a sheen appeared.

A spokesperson for Phillips 66 said the company was still working to clear water from the facility as of Monday afternoon and that post-storm assessments would likely continue through the end of the week.

The spokesperson did not comment directly on the potential idling or sale of Alliance.

However, he added, "restart planning is ongoing, although … timelines for operational restarts will be largely dependent on assessment impacts, necessary repairs and access to electricity and other utilities.

In Limbo

Alliance's dilemma comes as refiners have been shuttering, attempting to sell or converting facilities to produce renewable fuels at a steady clip amid intensifying environmental restrictions and stagnating demand, with the Covid-19 pandemic's effects on fuel consumption serving as a potent catalyst.

Energy Intelligence had already anticipated US fuel demand to plateau and begin a gradual decline prior to the pandemic. Some experts say that Covid-19 itself served a preview of a lower-carbon energy economy, prompting refiners to start diversifying their portfolios more aggressively.

To date, well over 1 million b/d in throughput capacity has, for all intents and purposes, gone off line, with several refineries being converted to produce renewable diesel. Valero, Phillips 66, HollyFrontier and Marathon Petroleum are investing heavily in renewable diesel capacity.

Phillips 66 itself recently jumped into the market for batteries for electric vehicles as well.

Other downstream players and integrated companies are trying to sell facilities. LyondellBasell announced it is weighing the sale of its Houston, Texas, refinery just last week.

However, recently sold facilities have not fetched high prices.

Frans Koster, New York

Oil Prices Level Out Amid Cross-Currents

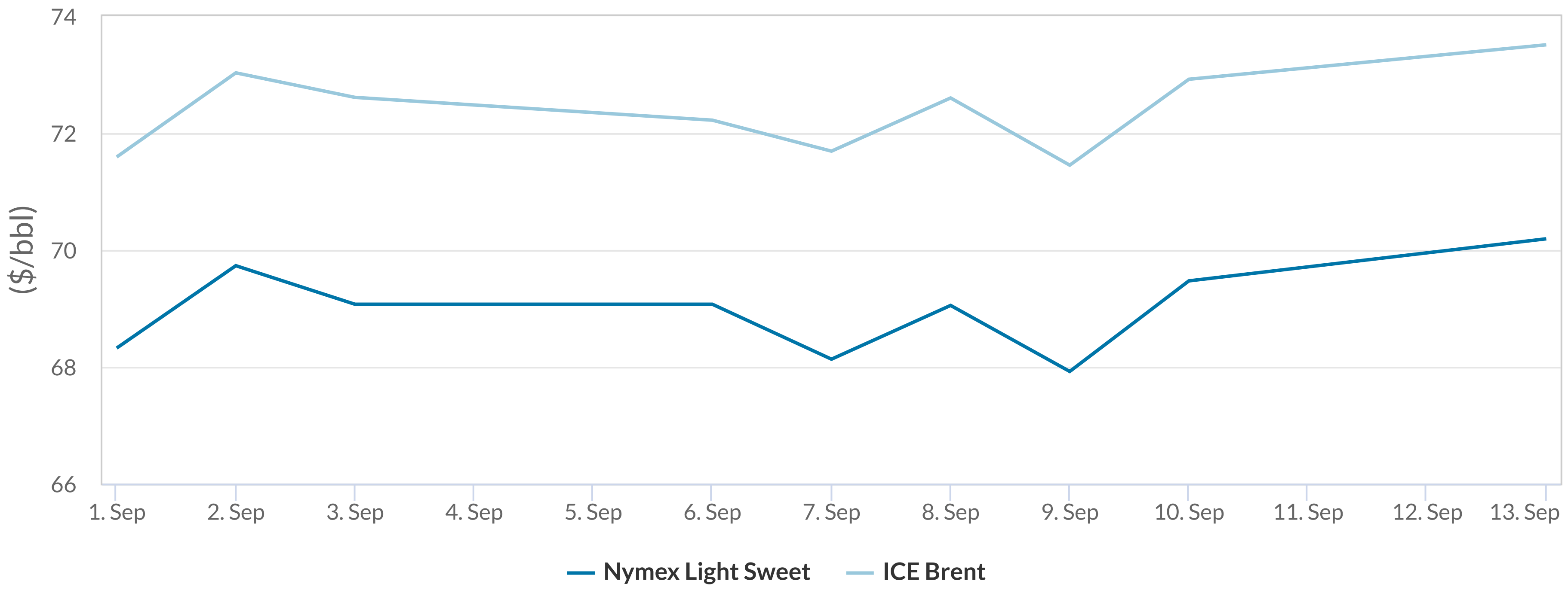
Oil futures were treading water on Tuesday, with powerful cross-currents keeping prices in their current range for the time being.

In London, Brent crude for November delivery settled up 9¢ at $73.60 per barrel.

In New York, October West Texas Intermediate (WTI) on Nymex closed a penny higher at $70.46/bbl, while the November contract gained 4¢ to end the session at $70.23/bbl.

US oil production and refining capacity still have not fully recovered from Hurricane Ida two weeks later, and Texas is now being swamped by Hurricane Nicolas. Ida's impact helped inform large draws on oil inventories in early September, and persistent downstream outages could tighten the market for refined products, as could more storms.

ICE BRENT VS. NYMEX WTI FUTURES



Colonial Outage

Midstream firm Colonial Pipeline announced on Tuesday that it has shut down Lines 1 and 2 of its system as a precautionary measure due to Nicholas. Colonial transports roughly 45% of the fuel consumed on the US East Coast.

However, the shutdown was short-lived, and Colonial kept its lines open from the US Southeast to the New York Harbor — the pricing point of the Nymex gasoline contract.

As a result, market reaction was muted; gasoline settled 1.15¢ higher at $2.1724 per gallon, while the diesel contract rose 0.3¢ to close at $2.1613/gallon.

Headwinds & Tailwinds

Experts said there are no lack of bearish factors to check the price impacts of inventory draws and midstream disruptions.

"The [Covid-19] virus, fears of inflation … possible central bank tapering, proposed US corporate tax increases can all shake inventors' confidence, and they could have an effect on oil market sentiment," noted Tamas Varga of oil brokerage PVM.

But at the same time, production and refining outages suggest inventories "are destined to decline further this year putting a floor under every attempt to push prices lower."

Technical indicators also point to a market seeking direction. Analysis by technical trading firm Icap show both WTI and Brent are stuck almost halfway between their nearest respective support and resistance levels, which can hamper price movement.

Meanwhile, the physical and derivative markets seem to be converging. Brent futures on London's ICE trade just 50¢ higher than the underlying dated Brent contract.

Frans Koster, New York

Operators Dodge Nicholas as Ida Recovery Continues

Upstream operators in the US Gulf of Mexico rode out the region's second hurricane in just over two weeks with only minimal output impacts as they continued to bring production back on line from the previous storm.

Hurricane Nicholas made landfall along the Texas coast Monday as a Category 1 hurricane, bringing strong winds and heavy rains as the storm moved toward Louisiana, where communities are still recovering from the more powerful Hurricane Ida.

Nicholas stayed clear of most oil and natural gas infrastructure. However, Royal Dutch Shell said it evacuated nonessential personnel from its Perdido platform in the southwestern Gulf and shut in production there Monday night due to high winds.

"Perdido is now ready to restart contingent on power being restored at a non-Shell downstream facility that lost power during the storm. There is no timetable at this point on when the downstream power issue will be resolved," a spokeswoman said, adding that there were "no plans for redeployment" on Tuesday due to weather conditions.

Perdido had remained fully on line during Ida, which forced more than 90% of oil and natural gas production in the US Gulf to be shut in.

Ongoing Recovery

The recovery from Ida's impact continued on Tuesday, with the total volume of shut-in crude slipping below 40% of pre-storm output. About 720,000 barrels per day of oil production was still off line as of midday Tuesday, according to the Bureau of Safety and Environmental Enforcement (BSEE).

A BSEE spokesman said the impact of Nicholas on US Gulf production "did not reach [the] threshold to report out" and was thus not included in Tuesday's figures.

Chevron said Tuesday that it has restored full production at its Blind Faith platform and partial production at the Jack-St. Malo, Big Foot and Tahiti platforms. Its Petronius facility "is ready to produce once the pipeline export routes it utilizes resume operations."

The biggest bottleneck remains Shell's hard-hit West Delta-143 transfer station, where a damage assessment is ongoing.

The West Delta facility is a three-platform, bridge-connected hub that processes production from Shell's assets in the Mars corridor, along with flows from Murphy Oil's Medusa platform, LLOG Exploration's Who Dat platform and Equinor's Titan platform.

Hurricane Ida Upstream Impact

Date	Platforms Off Line	% of Total	Oil Output Shut In ('000 b/d)	% of Total	Gas Output Shut In (MMcf/d)	% of Total
8/29	288	51.4%	1,741	95.7%	2,091	93.8%
9/5	104	18.6%	1,607	88.3%	1,845	82.7%
9/12	63	11.3%	884	48.6%	1,213	54.4%
9/13	47	8.4%	794	43.6%	1,151	51.6%
9/14	39	6.7%	720	39.6%	1,075	48.2%

Source: BSEE

Onshore Impacts

Onshore impacts from Nicholas were more significant, with strong winds cutting out power for hundreds of thousands of customers in the Gulf Coast region.

The Colonial Pipeline said it briefly stopped shipping gasoline and diesel out of Houston due to power losses but resumed shipments by midday Tuesday.

LyondellBasell's plastics plant in Matagorda County, Texas, also reportedly experienced outages.

Refiners on the Gulf Coast made it through Nicholas without much disruption. Citgo, Phillips 66 and Shell all said their respective refining operations continued uninterrupted.

At Deer Park near Houston, Shell said: “At this early stage there does not appear to be serious damage from wind, rain or storm surge. Operations at the facility remain normal.”

LNG Impact

Power outages did impact at least one LNG facility.

Freeport LNG said its three liquefaction trains are “currently down, due to power issues related to the storm.”

“Our work to assess everything at the facility continues. There is no other damage at the facility to report,” a spokeswoman said.

Luke Johnson, Houston

IN BRIEF

Proxy Advisory Supports Cabot-Cimarex Merger

Influential proxy advisory firm Glass Lewis has recommended that shareholders of both Cabot Oil & Gas and Cimarex Energy vote to support their proposed merger, according to statements seen by Reuters on Tuesday.

The backing of Glass Lewis will be regarded as a positive for both parties on the transaction. Many shareholders follow the advice of proxy firms when deciding on how to cast their votes at shareholder meetings.

Both sets of shareholders are due to convene on Sep. 29 to vote on the potential merger, which was initially announced in May. The combination was seen as a surprise, given most recent oil and gas mergers have been between companies with overlapping footprints, but this deal brings together Cabot's gas-rich Marcellus Shale positions in the US Northeast and Cimarex's oil-heavy acres in West Texas.

"Despite the difference in the strategic rationale underpinning the proposed merger versus other recent exploration and production deals, we find the combination of Cabot and Cimarex is predicated on achieving the same financial objectives as other E&P mergers: generating increased free cash flow and greater returns of capital for investors," said the report to Cabot shareholders.

Glass Lewis noted that having a balance of both oil and gas production would benefit both Cabot and Cimarex, providing a more stable outlook for its financial performance: It's important as energy production companies weigh changing dynamics in their industry, including from pressures related to environmental, social and governance concerns. (Reuters)

US Backs Plan to Block Coal Funding

The Biden administration is backing a proposal under consideration at the OECD to block export credit financing for overseas coal projects.

The move is part of the White House's broader attempt to bring government funding in line with its emissions reductions targets.

In April, President Joe Biden pledged the US will reach net-zero emissions by 2050, with a 50%-52% reduction in greenhouse gas emissions by 2030.

Last month, the US pledged to use its vote at the World Bank and other multilateral development banks to oppose any coal or oil projects, although it left the door open to funding midstream and downstream gas projects.

The White House also has set a net-zero portfolio target for the International Development Finance Corp.

The US will still consider projects in which carbon capture, utilization and sequestration technology is deployed at coal-fired generation, according to a Treasury Department statement issued Tuesday.

US Special Envoy for Climate Change John Kerry is still trying to convince other governments to take similar steps, making stops in China and India in recent weeks.

Emily Meredith, Washington

DATA SNAPSHOT

Oil and Gas Prices, Sep. 14, 2021

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

CRUDE OIL FUTURES

($/bbl)	Chg.	1st Mth.	2nd Mth.
ICE Brent	+0.09	73.60	72.97
Nymex Light Sweet	+0.01	70.46	70.23
DME Oman	+0.23	71.95	71.22
ICE Murban	+0.04	72.43	71.73

INTERNATIONAL SPOT CRUDES

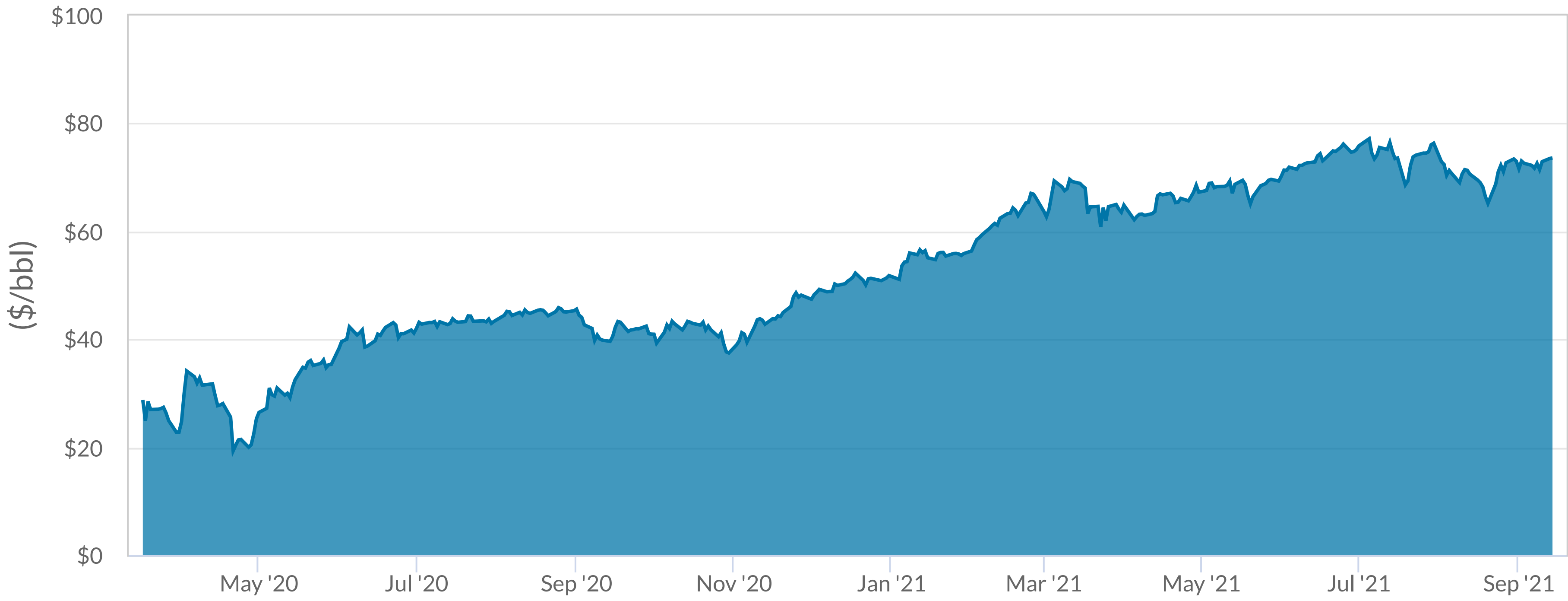
($/bbl)	Chg.	Price	Prior Close
Brent (Dated)	+0.54	72.97	72.43
Dubai	+0.83	71.69	70.86
Forties	+0.70	72.81	72.11
Bonny Light	+0.70	73.20	72.50
Urals	+0.70	71.85	71.15
Opec Basket*			71.98

*Opec price assessed.

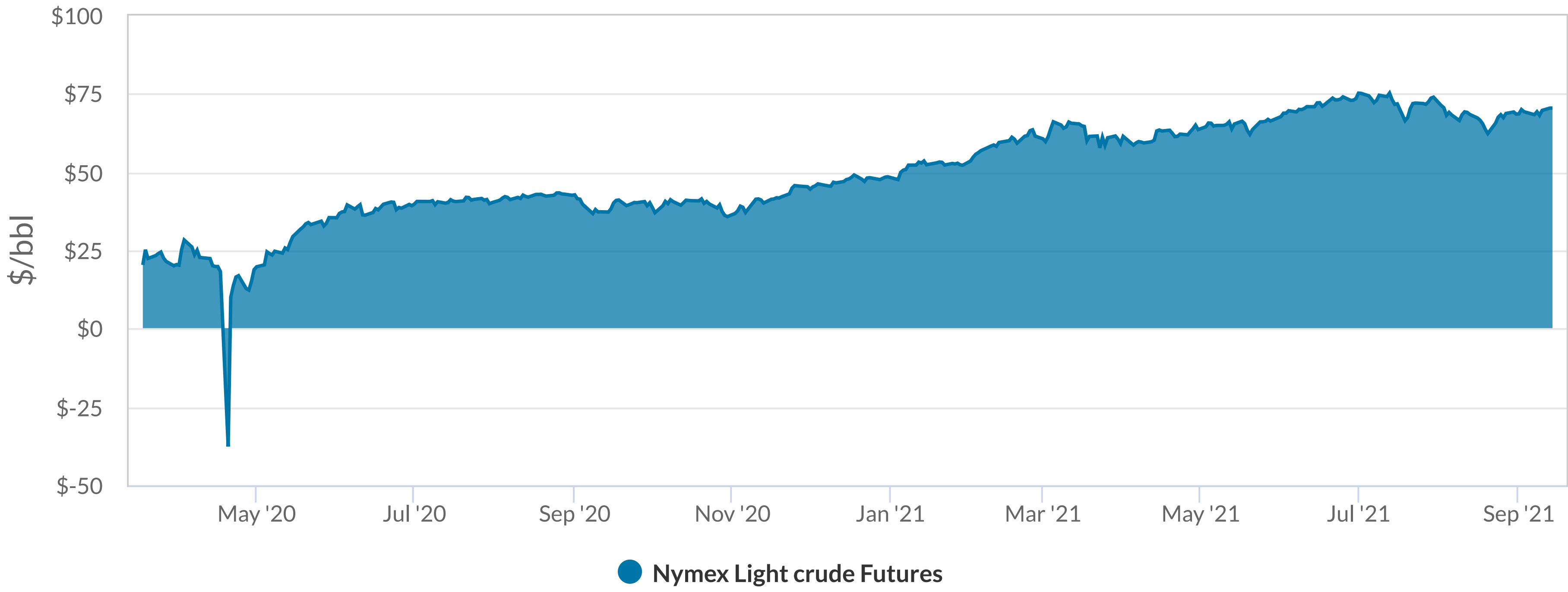
NORTH AMERICAN SPOT CRUDES

($/bbl)	Chg.	Price	Prior Close
WTI (Cushing)	-0.03	70.51	70.54
WTS (Midland)	0.00	71.09	71.09
LLS	0.00	72.29	72.29
Mars	0.00	70.69	70.69
Bakken	0.00	71.09	71.09

ICE BRENT CRUDE FUTURES



NYMEX LIGHT CRUDE FUTURES



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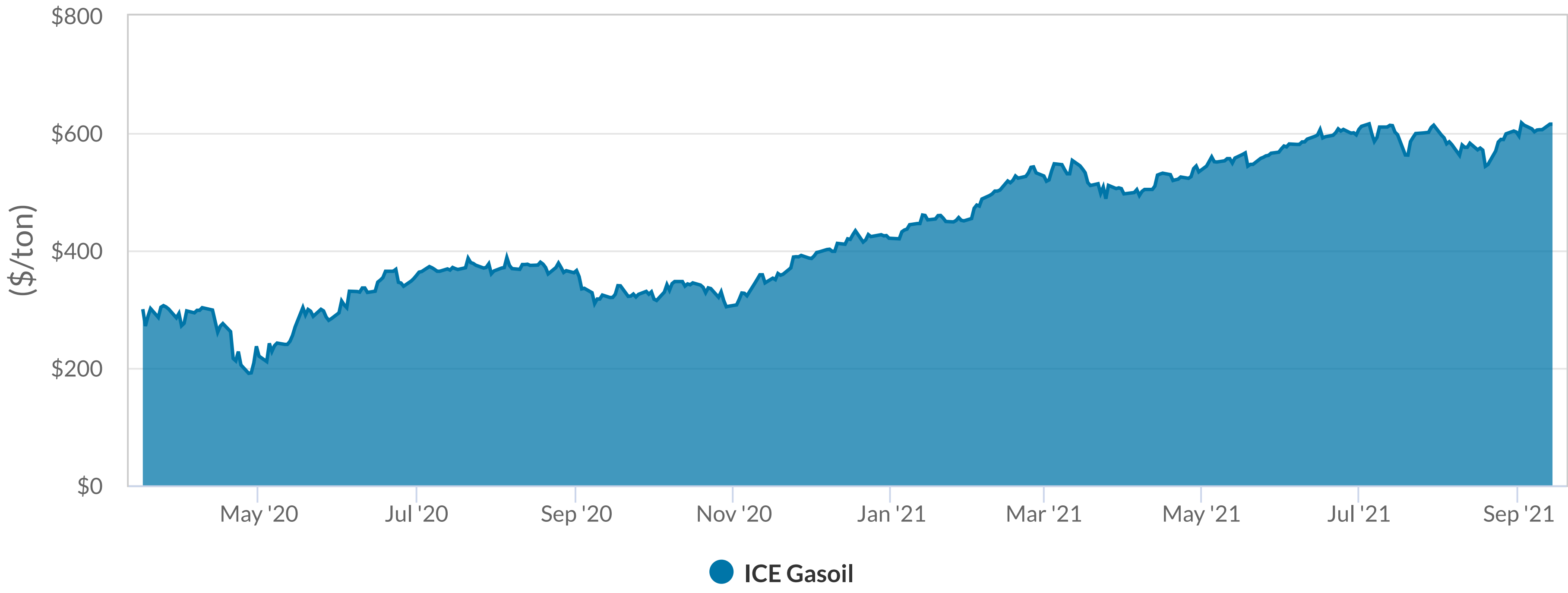
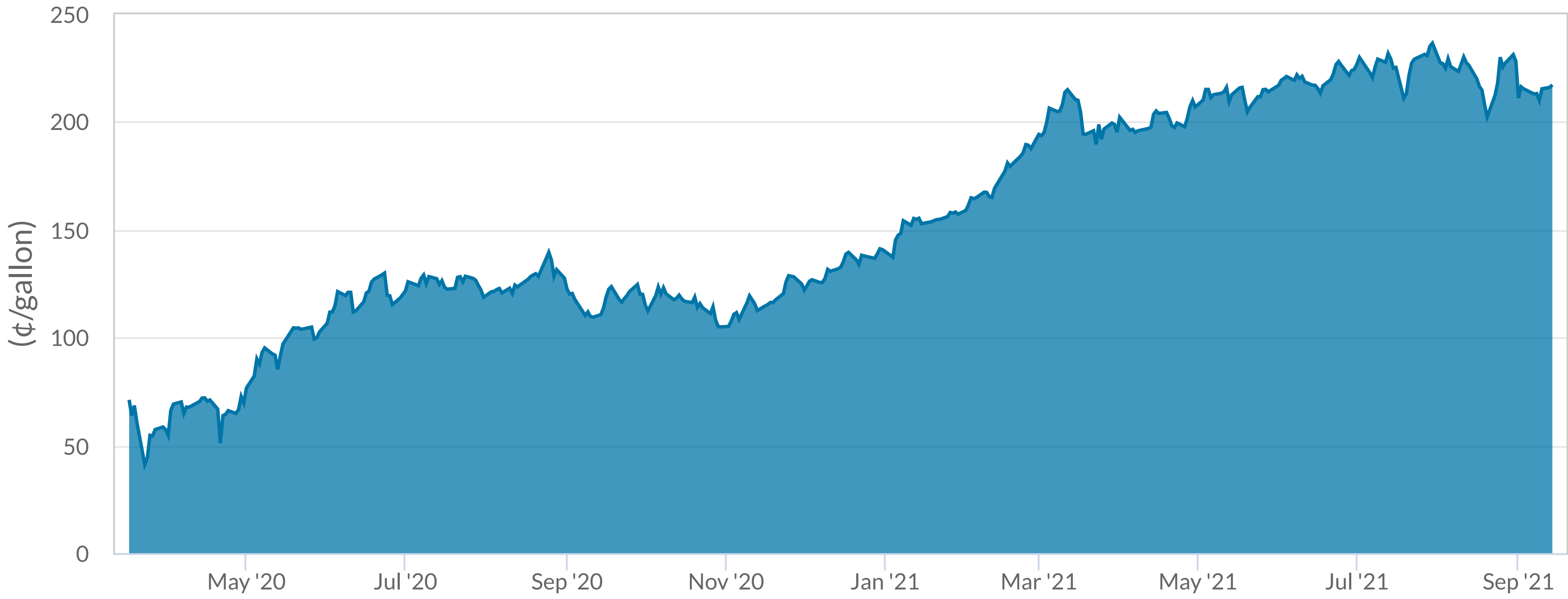
REFINED PRODUCT FUTURES

Nymex	Chg.	1st Mth.	2nd Mth.
Gasoline (¢/gal)	+1.15	217.24	211.19
ULSD Diesel (¢/gal)	+0.30	216.13	215.91
ICE			
Gasoil ($/ton)	0.00	615.00	613.50
Gasoil (¢/gal)	0.00	196.28	195.81

ICE GASOIL FUTURES



NYMEX GASOLINE FUTURES



US SPOT REFINED PRODUCTS

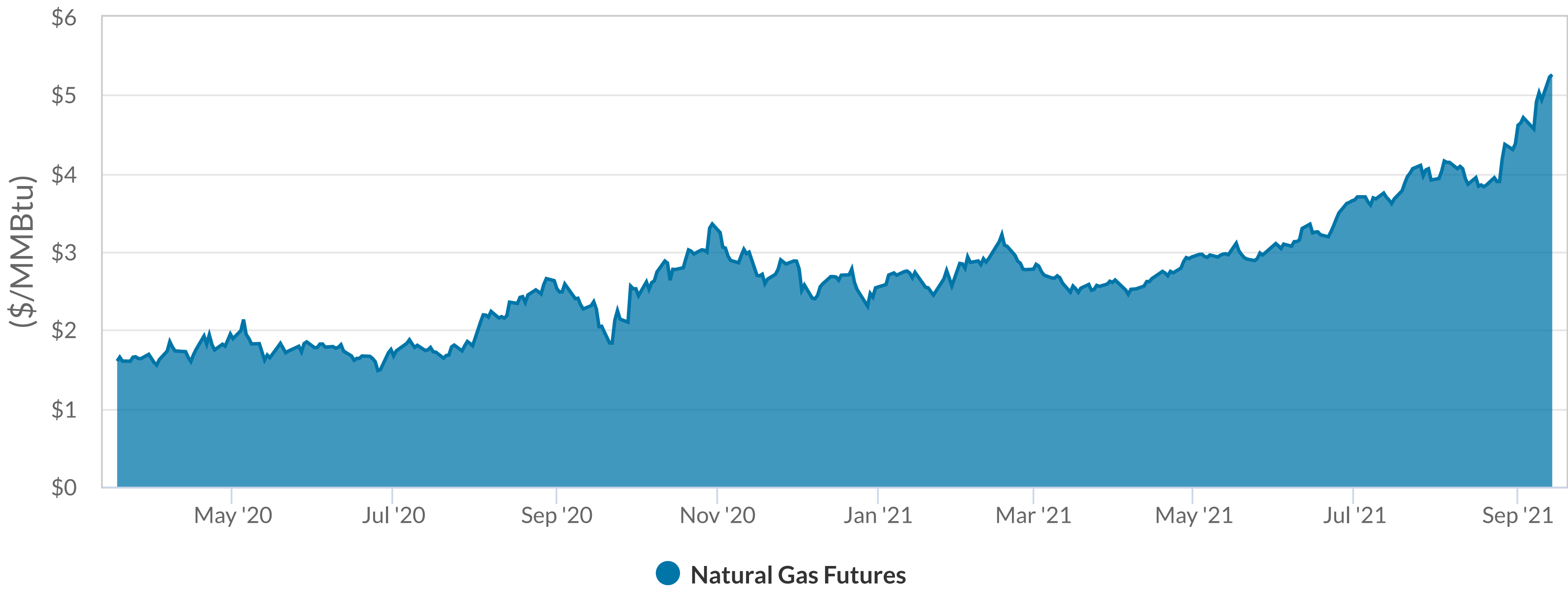
New York (¢/gal)	Chg.	Price	Prior Close
Regular Gasoline	+0.81	230.67	229.86
No.2 Heating Oil	+0.16	200.20	200.04
No.2 ULSD Diesel	+0.06	216.10	216.04
No.6 Oil 0.3% *			86.09
No.6 Oil 1% *			74.84
No.6 Oil 3% *			66.29
Gulf Coast (¢/gal)			
Regular Gasoline	-0.44	221.92	222.36
No.2 ULSD Diesel	+0.01	211.45	211.44
No.6 Oil 0.7% *			73.14
No.6 Oil 1% *			73.14
No.6 Oil 3% *			62.54

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

INTERNATIONAL SPOT REFINED PRODUCTS

Rotterdam ($/ton)	Chg.	Price	Prior Close
Regular Gasoline	-3.20	720.30	723.50
ULSD Diesel	+0.38	614.88	614.50
Singapore ($/bbl)			
Gasoil	+0.53	78.00	77.47
Jet/Kerosene	+0.57	78.51	77.94
VLSFO Fuel Oil ($/ton)	+1.64	539.18	537.54
HSFO Fuel Oil 180 ($/ton)	+3.56	463.72	460.16

NYMEX NATURAL GAS FUTURES



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NATURAL GAS PRICES

($/MMBtu)	Chg.	Price
Henry Hub, Nymex	+0.03	5.26
Henry Hub, Spot	+0.17	5.36
Transco Zone 6 - NY	+0.12	5.06
Chicago Citygate	+0.02	5.12
Rockies (Opal)	+0.06	5.66
Southern Calif. Citygate	+0.14	8.02
AECO Hub (Canada)	+0.14	3.68
Dutch TTF (euro/MWh)	+4.30	65.80
UK NBP Spot (p/th)	+11.00	166.00

US/Canada spot prices from Natural Gas Week

Equity Markets, Sep. 14, 2021

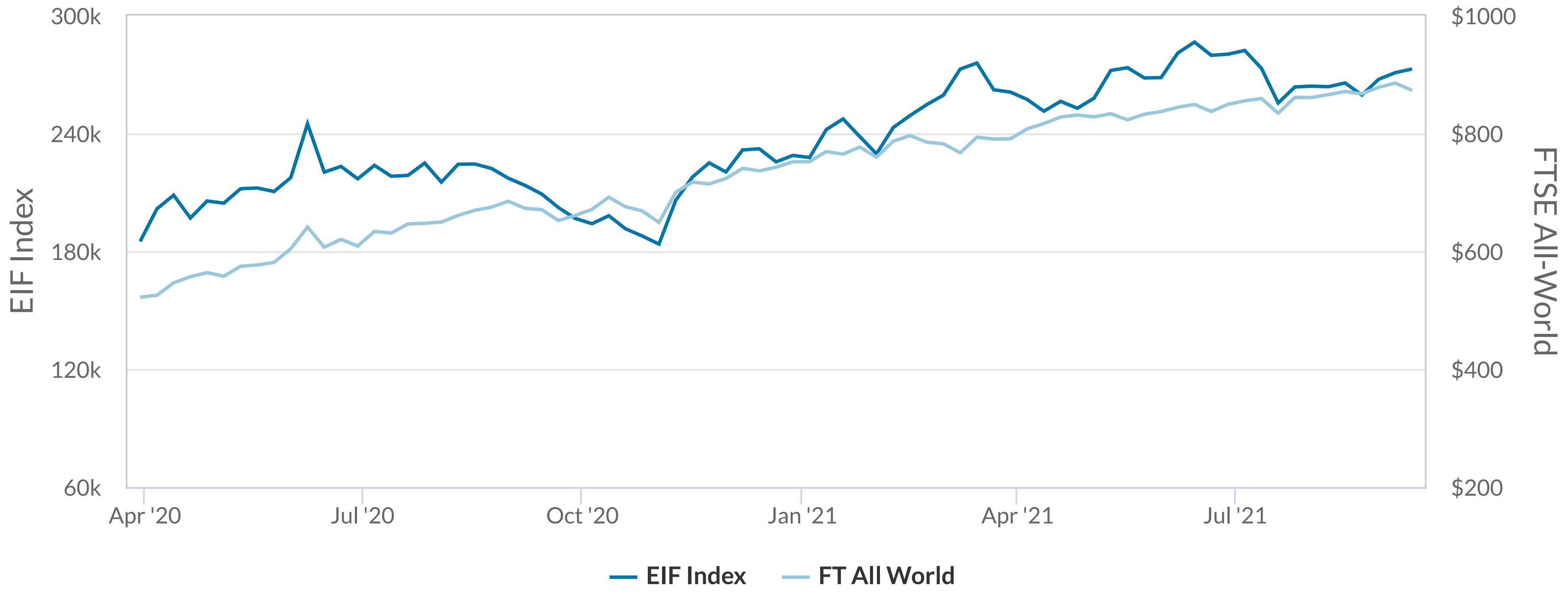
All data are produced by Energy Intelligence in cooperation with Reuters.

EQUITY MARKET INDEXES

	Chg.	Index	YTD %Chg.
EIF Global*	+4.26	272.79	+19.86
S&P 500	-25.68	4,443.05	+19.21
FTSE All-World*	+1.21	873.14	+15.82

*Index for previous day

EIF INDEX



EIF Global Oil and Gas Index of 21 traded equities