

Occidental Petroleum to Test Supertankers in Texas -- Update

By Erin Ailworth Published May 10, 2017

Occidental Petroleum Corp. this month plans to test whether a massive supertanker named Anne can dock at its oil terminal along Texas' Corpus Christi Bay.

If it works, the company plans to turn its onshore terminal into the first in the U.S. to receive vessels that size to export U.S. crude. Its cargo would then travel to markets as far-flung as Asia -- the latest example of how companies are moving to cash in on the flood of oil coming out of the Permian Basin, a prolific drilling field stretching from West Texas into New Mexico.

Permian output is expected to hit 2.4 million barrels a day this month as the region becomes ground zero for the rebirth of the U.S. shale industry following the worst oil bust in a generation. Producers have been racing to acquire or expand acreage in the field, which remains profitable to pump even at today's lower prices.

Exporting oil from U.S. shale plays, which became possible after Congress lifted a 40-year-old export ban in 2015, is becoming a more

attractive option for American producers. While supertankers have been used to carry U.S. crude before, they have been loaded offshore, not docked at facilities on the coast to pickup that crude for export.

Occidental hopes to transport Permian crude via supertanker from its terminal in Ingleside, Texas, in 2019. To get cargoes to Asia, the ships will take the long way around Africa. They are too large to fit through the Panama Canal.

"Permian crude is being exported all around the world, primarily to refineries in Asia and Europe, and Occidental's export facility is well positioned to serve the Permian," said Occidental Chief Executive Vicki Hollub. "This continues to build on our position as the largest oil producer in the Permian, loading the largest ships with our crude and the crude of other producers in the region."

But there are numerous challenges to accommodating ships the size of the 1,093-foot-long Anne, which are known as very large crude carriers, or VLCCs, and can hold more than 2 million barrels of oil.

Getting the ship to berth requires navigating strong currents and heavy winds as the ship, guided by pilots with the Aransas-Corpus Christi Pilots Association, executes the necessary turns to line up with the dock.

Loading the vessels will require a two-step process. The first is making sure the massive vessels can clear bottom as they leave port with an oil cargo.

Occidental is hoping to partly load the ships at dock so that their massive hulls don't sink too far from the weight, then finish loading at sea with oil ferried out by a single smaller tanker.

Globally, few ports are deep enough to handle such a ship, which need at least 66 feet of clearance in the water when fully loaded. The Port of Corpus Christi is currently about 45 feet deep, though officials hope to deepen the port to 52 feet within 2 to 3 years.

Occidental estimates its ability to berth supertankers for partial loading -- rather than having to ferry multiple loads of oil to the ship offshore -- will save approximately 75 cents per barrel on transportation costs.

Occidental is currently moving 250,000 barrels a day of Permian crude -- about one-eighth of the field's total production -- out of its facility in Ingleside, a city of about 9,500 people about 20 miles east of Corpus Christi. Those barrels include oil it has pumped, as well as crude pumped by Permian peers such as Pioneer Natural Resources Co.

"There's a huge demand for sweet crude around the world and we've just got to tap into that market," said Rich Dealy, Pioneer's chief financial officer.

Not including the barrels it shipped from the Occidental terminal, Pioneer exported 1 million barrels of Permian oil to Asia and Latin America in the first quarter. Pioneer expects to export another 1 million barrels of Permian crude to northwest Europe and the Mediterranean by the end of June.

Tim Rezvan, an analyst with Mizuho Securities USA LLC, said the export capability of Occidental's Ingleside terminal will be a relief valve for the crude flowing so readily out of West Texas.

Those barrels will compete with supplies from places like Saudi Arabia, putting pressure on members of the Organization of the Petroleum Exporting Countries that have been trying to maintain market share while also submitting to production cuts to help rebalance the market.

"OPEC is well aware that U.S. barrels are infringing on areas they typically weren't reaching," Mr. Rezvan said. "It will be an interesting thing with the Saudi Aramco IPO looming."

Earlier this week, the Dubai Angel, an 820-foot-long tanker, filled up at Occidental's Ingleside terminal, which began operating in October.

Occidental purchased the 1,000-acre property, a former naval base, in 2012 for nearly \$90 million. Six 350,000 barrel storage tanks stand sentinel near the dock, where large white loading arms reach toward the sky, ready to pump crude into waiting ships.

The Anne is slated to arrive May 22 so that Occidental can take its measurements and work out where to install the necessary loading arms and tie points for vessels of its size.

"The dock was built to take an aircraft carrier; now it's going to take a VLCC," said John LaRue, executive director of the Port of Corpus Christi. "It's a demonstration of what the future will be."

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