Oil and Gas News Briefs
Compiled by Larry Persily
April 13, 2020

Oil producers reach deal to cut output; falling demand still a worry

(Bloomberg; April 12) - The world's top oil producers have pulled off a historic deal to cut crude output and put an end to a devastating price war. After a week-long marathon of bilateral talks and four days of video conferences with government ministers from around the world — including the OPEC+ alliance and Group of 20 nations — a deal finally emerged April 12 to deal with the global pandemic's debilitating hit to oil demand.

The talks almost fell apart because of resistance from Mexico but came back from the brink after a weekend of diplomacy. OPEC+ will cut 9.7 million barrels a day. The U.S., Brazil, and Canada will cut 3.7 million barrels as their output declines due to economics. OPEC was still waiting to hear more from Group of 20 members, though it's not clear if those numbers will represent real cuts or just production idled because of market forces.

Mexico appeared to have won a diplomatic victory as it will only be required to cut 100,000 barrels a day — less than its pro-rated share. President Andres Manuel Lopez Obrador, a leftwing populist who has pledged to bolster Mexico's oil prowess, had balked at Saudi Arabia's request for a 400,000-barrel-a-day cutback.

With the virus paralyzing economies worldwide, demand for oil is collapsing and prices have plunged to 18-year lows, threatening the future of the U.S. shale industry and the stability of oil-dependent nations. The question is whether the cuts will be enough to put a floor under prices. OPEC's chief warned that demand fundamentals were "horrifying."

The production restraints are set to last for about two years, though not at the same level as the initial two months. OPEC will reduce the size of the cutbacks over time. And the deal doesn't take effect until May 1, leaving OPEC+ countries able to continue flooding the market until then. Goldman Sachs called the cuts "too little and too late."

Mexico benefits from 20-year practice of hedging oil prices

(Bloomberg; April 11) - As Mexico and Saudi Arabia fight over a deal to bring the oil-price war to an end, Mexico has a powerful defense: a massive Wall Street hedge shielding it from low prices. Mexico's sovereign oil hedge, which insures the Latin American country against low prices and is considered a state secret, is a factor that made the country less inclined to accept an OPEC+ production-cut agreement.

For the past two decades Mexico has bought so-called Asian style put options from a small group of investment banks and oil companies in what's considered Wall Street's largest — and most closely guarded — annual oil deal. The options give Mexico the right to sell its oil at a predetermined price. It is the equivalent of an insurance policy: The country banks gains from higher prices but enjoys the security of a minimum floor. If oil prices remain weak or plunge even further, Mexico will still book higher prices.

The hedge has shielded Mexico in every downturn over the past 20 years: It made $5.1 billion when prices crashed in 2009 during the global financial crisis, and it received $6.4 billion in 2015 and $2.7 billion in 2016 after Saudi Arabia waged another price war. But it comes at a cost. In recent years Mexico has paid about $1 billion a year to buy the options. "The insurance policy isn't cheap," Mexican Finance Minister Arturo Herrera said March 10. "But it's insurance for times like now. Our budget isn't going to be hit."

Mexico has disclosed very few details about its options for 2020 after it declared the hedge a state secret. However, the government told lawmakers it has guaranteed revenues to support the oil-price assumptions in the country's budget — $49 a barrel for the Mexican oil export basket, equivalent to about $60 to $65 a barrel for Brent crude.

Demand for crude oil, gasoline, diesel plummet worldwide

(Bloomberg; April 9) – Global oil demand is being destroyed as the coronavirus forces people around the world to remain indoors and avoid all unnecessary travel. Currently, between a third and a half of the world's population are in lockdown, meaning few people are driving, flying or doing much that would require the use of crude or its derivatives. The latest set of U.S. data starkly illustrated the impact.

On April 8, the U.S. Energy Information Administration reported U.S. drivers consumed the smallest volume of gasoline in at least the past 30 years as normal life ground to a halt. U.S. oil demand has now fallen to 14.4 million barrels a day, the lowest going back to 1990 and a drop of more than 30% from pre-crisis levels, the EIA said. Global demand for crude could fall by 27 million barrels a day this month, according to Rystad Energy, while commodity trader Trafigura Group estimates it at about 35 million barrels.

In India, crude demand in the world's third-biggest consumer has collapsed by as much as 70% as the country endures the planet's largest national lockdown, according to officials at the country's refiners. In Spain, one of the countries hit worst by the disease, oil product demand fell by 23% in March, according to BloombergNEF. Sales of gasoline and diesel in the U.K. were down by 66% and 57%, respectively, as of March 31, according to the U.K. Petrol Retailers Association.

Oil demand crashes by 70% as India locks down entire nation

(Bloomberg; April 9) – Current oil demand in the world's third-biggest consumer has collapsed by as much as 70% as India endures the planet's largest national lockdown, according to officials at the country's refiners. The estimated demand loss is a stark reminder of the challenge facing oil producers. Consumption for the entire month could average about 50% below last year's levels but that's based on India's three-week lockdown ending April 15 as planned, according to the refinery officials.

The reduction equates to a staggering 3.1 million barrels a day of lost oil demand, according to data compiled by Bloomberg. "This is an unprecedented situation, I have neither seen nor heard anything like this in my entire life," said R.S. Sharma, former chairman of Oil & Natural Gas Corp., India's biggest producer, which also has two refining units. "There's lot of turmoil and things are going to worsen," said Sharma.

India's March 25 decision to impose a three-week lockdown on its 1.3 billion people was the most far-reaching measure undertaken by any government to curb the spread of the coronavirus. It has helped plunge global energy markets deeper into turmoil. "India's oil demand is falling off a cliff, as the whole nation has come to a standstill," said Senthil Kumaran, an oil markets consultant at Facts Global Energy.

Bank survey finds almost 40% of producers cannot survive $30 oil

(Bloomberg; April 7) - Almost 40% of oil and gas producers face insolvency within the year if crude prices remain near $30 a barrel, according to a new survey by the Federal Reserve Bank of Kansas City. Energy companies surveyed during the second half of March said they expect just 61% of firms to remain solvent this year if West Texas Intermediate crude stays at $30. That edges up to a 64% survival rate if prices rise to $40 a barrel, according to a report released April 7.

"Expectations for future activity also fell to their lowest level since late 2014, as most firms do not expect energy prices to return to profitable levels this year," said Chad Wilkerson, Oklahoma City Branch executive and an economist at the Kansas City Fed. The responses echo a similarly negative survey released by the Dallas Fed last week. While the Dallas district encompasses activity in the biggest oil-producing state, the Kansas City Fed serves crude-heavy Oklahoma, Wyoming, and northern New Mexico.

Respondents to the Kansas City Fed survey on average expect U.S. benchmark oil prices to reach $33 in six months. "We cannot continue producing oil below the cost to produce it," said a respondent.

U.S. refinery will shut down this week, more could follow

(Bloomberg; April 9) – The next step for some U.S. refineries that have already cut way back may be a full stop. Marathon will idle its Gallup, New Mexico, refinery and related assets April 15, the company said. It's the first U.S. facility to shut as the coronavirus pandemic empties skies of passenger planes and the roads of cars. It is not likely to be the last. Major U.S. refiners, including Marathon, Valero, and Phillips 66, have lowered rates at their facilities to be at or near minimum levels as storage tanks fill up.

While that "minimum" level differs from company to company, and in fact from plant to plant, it's seen typically somewhere around 60% to 65% of capacity. Below that, many facilities need to be idled. "If after cutting rates to a minimum, refiners are still unable to move their products, they are faced with the prospect of completely shutting down," said Andy Lipow, president of Lipow Oil Associates in Houston.

A refinery is a complex web of interconnected units. When the amount of crude being processed in the distillation unit falls too low, secondary units don't have enough feedstock to keep running. Since many units operate under high pressure as well as high temperature, it becomes difficult to maintain proper conditions for operation.

Major U.S. banks consider taking over oil and gas fields

(Reuters; April 9) - Major U.S. lenders are preparing to become operators of oil and gas fields across the country for the first time in a generation to avoid losses on loans to energy companies that may go bankrupt, sources said. JPMorgan Chase, Wells Fargo, Bank of America, and Citigroup are each in the process of setting up independent companies to own oil and gas assets, said three sources. The banks are also looking to hire executives with relevant expertise to manage them, the sources said.

Energy companies are suffering through a plunge in oil prices caused by the coronavirus pandemic and a supply glut with crude prices down more than 60% this year. Oil and gas companies working in shale basins from Texas to Wyoming are saddled with debt. The industry is estimated to owe more than $200 billion to lenders through loans backed by oil and gas reserves. As revenue has plummeted and assets have declined in value, some companies are saying they may be unable to repay.

Whiting Petroleum on April 1 became the first U.S. producer to file for Chapter 11 bankruptcy and others have hired debt advisers. If banks do not retain bankrupt assets, they might be forced to sell them for pennies on the dollar at current prices. The companies they are setting up could manage oil and gas assets until conditions improve enough to sell at a meaningful value. U.S. banks have not done anything like this since the late-1980s, when another oil-price rout bankrupted a bunch of energy companies.

The structures that banks are setting up will take a few months to establish, sources said, giving producers until the fall — the next time banks will evaluate the oil-reserve collateral behind energy loans — to get their finances in order.

Oklahoma producers will ask state to limit production

(Reuters; April 8) - A group of Oklahoma oil producers plans to formally file a request calling on the regulatory commission in the fourth-largest U.S. oil-producing state to impose production curbs. The Oklahoma Energy Producers Alliance (OPEA) will file in coming days an application asking commissioners to hold a hearing on production cuts, which it has not specified. Last week the group sent a letter to regulators seeking help.

“They’re fiddling while the industry is burning to the ground,” Mike Cantrell, a member of OEPA’s executive committee, said of the Oklahoma Corporation Commission. Oil prices have collapsed as the COVID-19 pandemic has pushed the global economy toward recession. The Oklahoma request follows a similar move in Texas, where producers Parsley Energy and Pioneer Natural Resources called on the state to require 20% production cuts from larger producers.

Oklahoma has not used its authority to limit oil production in many decades. The commissioners could do so through their own legislative authority, or through a judicial process, which OEPA plans to pursue. Oklahoma producers have some of the highest cost of production in the U.S. New wells in the state’s SCOOP and STACK formation on average require $48 a barrel to eke out a profit, according to a Deutsche Bank analysis.

Large pipeline company estimates U.S. storage could fill by mid-May

(Argus; April 9) - Plains All American Pipeline, one of the largest U.S. midstream companies, expects commercial oil storage in the U.S. to fill by mid-May as demand has plummeted because of efforts to fight the COVID-19 pandemic. Plains expects U.S. refinery demand for crude will decline by at least 30%, or about 5 million barrels per day, and crude exports will drop by 1 million barrels per day, adding to the oil flow in search of storage, according to a filing April 8 with Texas state regulators.

The Texas Railroad Commission is planning a virtual hearing April 14 to discuss curtailing the state's oil production to help balance the market in the wake of the crash in crude prices and a sharp drop in demand because of the coronavirus. Plains' letter to the commission was meant to inform regulators of current market conditions and did not specify whether the company supports a statewide curtailment.

The April 14 meeting is in response to a request by two shale producers, Pioneer Natural Resources and Parsley Energy, which said that current "extraordinary circumstances" have caused "the largest imbalance in history" in global supply and demand. ExxonMobil and Occidental have come out strongly against the idea of Texas oil production cuts, as have several business groups.

Main oil-trading hub in Mideast runs out of room to take more oil

(Bloomberg; April 12) - With fuel demand crashing and the world awash in surplus crude, even the Middle East's main oil-trading hub has run out of room to store more barrels. Terminal operators at Fujairah in the United Arab Emirates say they're turning down requests from traders and refiners to store crude and refined products. The port's 14 million barrels of commercial storage capacity is just a fraction of what Saudi Arabia and Abu Dhabi provide for their state oil companies — but it's an important storage hub.

Without tanks to lease, traders face costly constraints on their role as matchmakers who link a specific supply here with a willing buyer there. The global oil glut is making it harder for traders to even out imbalances in the market, and the plunge in crude is making matters worse. "If tanks are leased or blocked, then traders need to push back on taking crude," said Edward Bell, senior director for market economics at Emirates NBD in Dubai. That, in turn, could force production in some places to halt.

Demand for storage, an unglamorous but essential link in the global energy supply chain, is at its highest in years. Nowhere more so than in Fujairah, a gateway for shipments from the world's most prolific oil-producing region. Fujairah cemented its position in the world's oil-storage and supply network over the past 30 years. It started out as a refueling station for tankers shunting crude from the Persian Gulf to refineries in China, the U.S., and elsewhere. It also built tanks where traders could stockpile fuels.

Lockdowns will reduce electricity, gas demand in Asia

(S&P Global Platts; April 8) - Lockdowns in Japan and Singapore, two of Asia's most developed economies, could cut electricity and natural gas demand further at a time when energy consumption is already collapsing across economies as stay-at-home restrictions of varying degrees are enforced. The curbs are spreading to countries with a sizable impact on gas demand — Japan is the world's largest LNG importer.

This has LNG and electricity traders worried and many cited uncertainty in assessing the impact of the restrictions, especially if secondary and tertiary waves of infection surface. Japan on April 7 declared a month-long emergency, asking citizens to stay at home, and Singapore imposed similar measures keeping only essential services.

"The biggest impact on LNG demand from the crisis as a whole should be felt in the power generation and industrial sectors," said Hiroshi Hashimoto, senior analyst and head of the gas group at the Institute of Energy Economics, Japan. In the event of a total lockdown in Japan, key industrial sectors with the biggest drops in energy demand are expected to be construction at 92%, machinery 68%, ceramic engineering 67%, and metal 54%, according to an analysis by IEEJ last week.

Nigeria agrees to production cut, but cannot afford it too long

(Bloomberg; April 11) - Nigeria has adjusted down its oil production as part of the OPEC+ deal, reducing its output to 1.4 million barrels per day in May and June before slowing ramping up a bit to reach 1.6 million barrels a day next year. Nigeria's production reached 2.3 million barrels per day on April 5 with an increase planned to 3 million, according to state-owned oil company group managing director Mele Kyari. Oil accounts for about half of government revenue and 90% of exports.

"Nigeria cannot afford to cut output to the suggested levels for long," Teneo Intelligence vice president Malte Liewerscheidt said in a note late April 10. Production cutbacks triggered by militants' attacks in 2016-2017 resulted in shortfalls in government revenues and foreign exchange proceeds. This led to "the largest expansion in foreign borrowing in 20 years and the introduction of measures to ration access to foreign exchange that are still in place today," Liewerscheidt said.

"It might not hurt the government too much to abide by the new OPEC+ target in the short term, however, this incentive will evaporate as soon as there is a slight uptick in global crude prices," Liewerscheidt said. The national assembly will meet next week to consider revisions to the country's 2020 budget.

Low oil prices prompt Qatar to market bonds to raise money

(Reuters; April 7) - Qatar started marketing U.S. dollar-denominated bonds in tranches of 5, 10, and 30 years on April 7, a document showed, seeking to raise cash against a backdrop of low oil prices and market uncertainty caused by the coronavirus pandemic. Qatar is the first Gulf state to issue international securities since oil prices plunged early last month, pushing up borrowing costs for governments of the oil-producing region.

Qatar is offering an initial price guidance of 3.35 percentage points over U.S. Treasuries for the 5-year tranche, around 3.40 percentage points over the benchmark for the 10-year tranche and around 4.75 percentage points for the 30-year tranche, according to a document issued by one of the banks leading the deal. In addition to pumping oil, Qatar is one of the world's top exporters of liquefied natural gas, which is priced against oil.

“The bond sale’s success will depend on the pricing, which will determine investor appetite,” Castlereagh Associates, a London-based research consultancy, said this week. “The Qatari leadership will want to steal ahead of its neighbors and demonstrate there is demand for the issue.” The bond prospectus, seen by Reuters, said the coronavirus outbreak is hurting Qatar’s economy and financial markets and could lead to recession. The oil and gas sector contributed 83.3% of Qatar’s total revenue in 2018.

Exxon delay in LNG project a setback for Mozambique

(S&P Global Platts; April 9) - The move this week by ExxonMobil to delay the final investment decision on the Rovuma LNG project in Mozambique is a new setback for the southeast African country's fledgling LNG industry. Mozambique is set to become one of the world's biggest LNG exporters with more than 30 million tonnes per year of production capacity in development, but the industry is under threat from an increasing Islamist insurgency, very low LNG prices and deep cuts in company capital spending.

ExxonMobil had already pushed back FID on Rovuma into 2020, having been expected to sanction the project by end-2019. Now as part of a 30% reduction in its spending this year, Exxon said it would delay FID on Rovuma while it works with its partners to reduce costs. The gas liquefaction and export project is planned for 15.2 million tonnes annual capacity. Spot LNG prices have plunged since the start of the year with the benchmark Japan Korea Marker hitting a record low of $2.26 per million Btu at the start of April.

Analysts said the economics of Rovuma look increasingly challenging. "The glut of LNG supply and a recent sharp fall in oil prices, often used to set LNG prices, has only raised the risks," Joseph Gatdula from Fitch Solutions said April 9. Luke Cottell, an analyst at S&P Global Platts Analytics, said the estimated $27 billion to $30 billion price tag was "clearly unappetizing" in an environment where most companies are looking to dial back on capital spending. "Platts Analytics believes ExxonMobil will shelve this project until economics are more favorable, with first production not forecast until 2030," Cottell said.

Rovuma is the biggest of three ventures under development in Mozambique. The others are a Total-operated project, expected to start up in 2024 at 12.9 million tonnes per year, and an Eni-operated floating project, set for a 2022 start-up, at 3.4 million tonnes.

Korea Gas asks suppliers to delay LNG deliveries

(Bloomberg; April 8) - One of the world’s biggest liquefied natural gas buyers has become the latest company to ask suppliers to defer shipments as the effect of the coronavirus outbreak cripples energy demand. Korea Gas called on some of its suppliers on term contracts to defer some immediate cargoes due to high inventories and consumption restraints caused by the virus, according to sources.

Discussions with suppliers, which include French major Total and Malaysia's Petroliam Nasional, better known as Petronas, started this week, the people said. The South Korean company's move follows firms in India and China that requested cancellations and delays due to the pandemic. To make matters worse for suppliers, they are being forced to find new buyers at a time when spot prices are languishing at record lows.

Several buyers in North Asia, the global LNG demand center, have already exercised so-called "downward quantity tolerance" clauses in their long-term contracts, which allow them to take up to 10% less volume than originally agreed. South Korea is the world's third-biggest buyer of LNG, and KOGAS has a range of supply contracts with providers around the world, including Qatar and Russia. It was not clear what other suppliers KOGAS may have approached to reschedule cargoes.

Another tanker of U.S. LNG heads to China

(S&P Global Platts; April 9) - A fifth tanker that loaded at a U.S. liquefaction facility was said to be heading toward China on April 8, as tariff waivers appear to be encouraging more deliveries following a halt that has lasted a year. The Greek-owned Maran Gas Vergina, which loaded at Freeport LNG in Texas, was scheduled to arrive in China around April 19, according to a market source with direct knowledge of the current plan.

The tanker, chartered to BP for a spot voyage, was in the North Pacific on April 8, S&P Global Platts Analytics vessel-tracking software cFlow showed. Duties of 25% on U.S. LNG — imposed by Beijing in retaliation for U.S. tariffs on Chinese goods — have made deliveries to China uneconomic, especially when factoring in weak Asian demand and low international prices exacerbated by the coronavirus pandemic.

According to industry sources, Chinese companies that will be receiving the five cargoes now heading to China were granted exemptions by Beijing, removing the duties from U.S. LNG. Most businesses in China are resuming operations and employees are returning to work this week, raising expectations of an uplift in gas demand.

Enbridge applies for oil pipeline tunnel beneath Great Lakes

(The Associated Press; April 8) - Enbridge applied April 8 for state and federal authorization to construct an oil pipeline tunnel beneath the Michigan waterway that connects two of the Great Lakes. The Canadian company wants to build a 4-mile-long tunnel beneath the Straits of Mackinac. It would replace the underwater segment of

Line 5, an important pipeline that runs between Superior, Wisconsin, and Sarnia, Ontario.

Enbridge submitted a joint application to the Michigan Department of Environment, Great Lakes and Energy and the U.S. Army Corps of Engineers. The project needs approval from both. Line 5 carries about 550,000 barrels per day of oil and natural gas liquids used for propane. It divides into two pipes beneath the straits, which connects lakes Michigan and Huron — an ecologically sensitive area and popular tourist area. Pending regulatory approval, Enbridge plans to start work next year and finish in 2024.

Opponents contend Line 5 is vulnerable to leaks after lying on the bottom of the straits for 67 years. Enbridge has said it is in good condition and is monitored closely but agreed to spend $500 million on the replacement lines that would be housed in a tunnel drilled through bedrock underneath the straits. A Michigan court last year upheld an agreement between the company and then-Gov. Rick Snyder, a Republican, to build the tunnel, rejecting a challenge from Democratic Attorney General Dana Nessel.

Canadian oil and gas industry report cites long approval process

(Natural Gas Intelligence Daily; April 8) - Complex procedures are causing pipeline and liquefied natural gas project approvals to take more than one year longer in Canada than in the United States, inflating industry costs, according to an economic comparison survey. The study by the Canadian Energy Research Institute recorded average approval time lags of 13 months for pipelines and 19 months for LNG developments.

“The cost of a delay to a project can be as high as 15%,” said the researchers. “Uncertainty was the most discussed concern.” The study follows adoption of hotly contested federal climate change and environmental approval policies since the 2015 election of a new national government. It also comes after a series of Canadian oil and gas pipeline and LNG projects have been scuttled over the past five years.

Policies cited in the report include greenhouse gas emission reduction targets, carbon taxes, reorganization of the National Energy Board into the Canada Energy Regulator, and creation of the Impact Assessment Agency of Canada. “Increased uncertainty of the decision-making process in Canada adds to cost,” said the report, titled: “Competitiveness of Canada’s Regulatory Framework for the Oil and Gas Sector.”

Pennsylvania makes little progress sealing 200,000 abandoned wells

(The Associated Press; April 11) - Ten thousand acres of Pennsylvania’s only national forest have given way tree by tree over the past 70 years to an oil drilling operation unique in its scope in the northeastern U.S. A network of wells, tanks, pipelines, pump houses, and roads grew into the shape of an italic L cut into the Allegheny National Forest in Elk County to produce $350 million worth of oil. The lower leg is nearly 6 miles long; the upper one roughly 9 miles. The imprint is visible by satellite.

What worries state and federal regulators isn't the project's growth but its death. Last year the company that owns the field — ARG Resources — quietly shut it down. The company didn't have the money to run the operation, let alone plug and decommission its 1,600 wells, dozens of buildings and tanks and roughly 150 miles of roads. Although the ARG operation is unusual in many ways, Pennsylvania Department of Environmental Protection officials see it as a harbinger of a troubling trend.

A staggering drop in oil prices is threatening to cause a cascade of abandoned wells across Pennsylvania's oil and gas industry. There are already about 200,000 orphaned wells dotting the state — abandoned by their owners over a century of drilling. For most of that time, fully sealing off expired wells wasn't required, but each abandoned well is a risk. They can channel gas and oil to the surface, pollute streams and drinking water, create explosion hazards when gas seeps into homes, and emit climate-changing gases.

Very little money has been allocated for finding and plugging the old wells. Last year the state spent about $1 million to fund the work. It is sealing abandoned wells at a rate of fewer than 12 per year. At that pace it will take 17,500 years and about $6.6 billion.