Oil and Gas News Briefs
Compiled by Larry Persily
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Texas regulators meet May 5 to discuss restrictions on oil output

(Reuters; April 21) - Texas state oil and gas regulators in the coming days are poised to decide whether to order larger producers to shut in 20% of their output, wading into global oil politics as the coronavirus crisis slashes demand for crude. The regulators have the authority to limit production — but have not done so in decades. The Texas Railroad Commission, organized in the 1890s to oversee private railroads, grew to encompass other businesses, including oil and gas production and transportation.

The commission has a mandate under state law to "prevent waste of the state's natural resources," and some producers and one of three elected commissioners argue that the current oversupply of oil and resulting price crash is "economic waste." They held a hearing last week and are set to meet May 5. The agency first limited output as a way to lift prices after the discovery in the 1930s of the giant East Texas field, which rapidly reached 1 million barrels per day, crashing oil prices from $1.10 to 10 cents per barrel.

Shale producers Parsley Energy and Pioneer Natural Resources this month asked the state to consider cutting production 20%, or 1 million barrels per day. The measure has divided the industry in Texas with many of its largest producers and trade organizations opposed and some independent producers in favor. Texas last limited output in the early 1970s, a time when the state's production started falling into a decades-long decline that eliminated the reason for output caps as it lost market share to other countries. Texas output did not climb again until 2008 with the shale drilling boom.

Oil storage at Cushing, OK., could reach tank-tops first half of May

(Reuters; April 21) - Official U.S. government data shows that storage at the key crude oil hub in Cushing, Oklahoma, was just 70% full as of mid-April. But traders say that is bunk — whatever is left is spoken for by firms sending oil to the hub right now. With oil demand down 30% worldwide, oil buyers have few options other than to stick crude in storage, and Cushing is the primary U.S. site. The tanks have about 76 million barrels of working capacity, and coming into last week about 53 million barrels were stored there.

But while the tanks are not full yet, they are fully leased out to producers and traders who will fill them soon, five trade sources said. That means for anybody looking for last-minute space — there isn't any. As the coronavirus shutdown keeps people at home and obliterates demand, there is no reason for storage levels to fall. "The terminals have already contracted their storage 100%," said Ernie Barsamian, chief executive officer of The Tank Tiger, a terminal storage clearinghouse in Princeton, New Jersey.

The American Petroleum Institute said on April 22 that Cushing inventories rose by 4.9 million barrels as of April 17, putting total stocks at 59.5 million barrels, leaving space for about 16 million. The data, while not official government data, is more up to date than federal figures. "We have been forecasting for some weeks that Cushing would reach tank tops by mid-to-late May," said John Coleman, of Wood Mackenzie. "Based on current trajectories, (that) looks to likely to happen in the first half of May instead."

Analysts expect U.S. producers will move quickly to cut oil output

(CNBC; April 21) - Wild trading in an oil futures contract this week was like an alarm going off for a fire that firefighters already knew was burning. In this case, the oil industry has been aware that places to store oil are getting scarce because of oversupply, but the crazy trading that sent the May futures contract for West Texas Intermediate crude into a 300% decline April 20 highlighted just how real the problem is.

Holders of the futures contract were unwilling or unable to accept delivery of the oil and were forced to pay to get rid of it. The contract for an oil purchase went negative for the first time ever, and somebody in the market got badly burned. Steward Glickman, an energy equity analyst, said the May contract was one thing, but it's the drop in the June contract that leads him to expect the oil sector will move faster to shut down production.

"The June contract … fell 15% Monday and it fell [again] today. That does speak to concerns over storage. The solution to this is if you are a producer who can't find storage above ground, the next best choice is to find storage below the ground. … Just shut it down," he said. The June contract fell sharply April 21, to settle down more than 43% at $11.57 per barrel. The contract sold off as investors worried about oversupply.

The U.S. was producing about 13 million barrels a day before the transportation industry came to a standstill. U.S. drivers are typically responsible for about 10% of global oil demand, and their gasoline use has been cut in half. "I think there's going to be massive cuts (in oil output). … Some of the cuts will be voluntary and will enable companies to live on, and others will be involuntary," said John Kilduff, of Bank of America.

Gulf of Mexico producers start shutting down wells

(The Wall Street Journal; April 22) - Offshore drillers have begun shutting off wells in the U.S. Gulf of Mexico following a collapse in crude prices due to the COVID-19 pandemic, and some executives worry that the region's production may take years to fully recover.

A historic decline in energy demand that has led refiners to make less fuel and caused storage tanks to fill up with crude is pushing gulf producers to shutter high-cost wells in both shallow and deep federal waters. The offshore oil sector accounted for about 15% of the nation's production, or nearly 2 million barrels a day last year, a record.

The response to the crisis is expected to have longer-lasting impacts on the region than the pullback in onshore plays like the Permian Basin. Offshore producers pay comparatively high costs to produce and transport crude oil to onshore refineries and storage facilities. They typically offset those costs by collecting premium prices for barrels delivered into Gulf Coast trading hubs in Texas and Louisiana, supported by high demand from U.S. refiners.

"This could very well be the peak for years," said Richard Kirkland, CEO of shallow-water producer Cantium, which is shutting down all of its wells. "We've got to survive with our hedge money and cash in the bank." Fieldwood Energy decided immediately to shut-in the vast majority of its 100,000 barrels a day of gulf production this week, CEO Matt McCarroll said. "Storage is full. Refineries are full. They don't want the oil."

U.S. producers 'living a nightmare' of low prices

(The New York Times; April 21) - Workers at Marathon Petroleum's refinery in Gallup, New Mexico, are turning off the valves. Oil companies in West Texas are paying early termination fees to contract employees rather than drill new wells. And in Montana, producers are shutting down wells and slashing salaries and benefits. Just a few months ago, the U.S. oil industry was triumphant in its quest for energy independence, having turned the country into the world's biggest producer for the first time in decades.

But that exhilaration has given way to despair as the coronavirus has kneecapped the economy, destroying demand for gasoline, diesel, and jet fuel. The oil industry has lived through many booms and busts, but never before have prices collapsed as they have this week. "I'm just living a nightmare," said Ben Sheppard, president of the Permian Basin Petroleum Association, which represents companies in the area of Texas and New Mexico that became the world's most productive oil field last year.

In Midland, Texas, the epicenter of the shale boom over the past decade, parking lots at companies like Chevron, Diamondback, and Apache are empty. Many smaller oil firms are expected to seek bankruptcy protection in the coming months after having spent years borrowing billions of dollars to produce and move crude. Producers have $86 billion in debt coming due between 2020 and 2024, and pipeline companies have $123 billion to repay or refinance in the same period, said Moody's Investors Service.

"It's a sad time for our business, that's for damn sure," said Jim Wilkes, president of Texland Petroleum, a 40-year Texas producer. "The pricing is below our production costs." Wilkes has decided to shut all production and stop all sales on May 1.

Former head of BP says low oil prices will last ‘considerable time’

(Reuters; April 21) - Oil prices will stay low for some time as supply exceeds demand and the current situation on global oil markets is reminiscent of the 1980s oil glut, former BP boss John Browne said on April 21. U.S. crude prices dropped below $0 for the first time ever April 20 with May futures for U.S. crude plummeting to minus $37.63 a barrel, though the negative pricing was also a product of futures contracts unraveling as investors had to cover their losses and bail out. Prices returned to positive on April 21.

Browne, who ran BP from 1995 to 2007, said the negative prices were a U.S. issue due to a lack of storage, though he said demand was down across the world while production was still high. “The prices will be very low and I think they will remain low and very volatile for some considerable time,” Browne told the BBC. “There is still a lot of oil being produced that is going into storage and not being used. … This is very reminiscent of a time in the mid-1980s when exactly the same situation happened — too much supply, too little demand and prices of oil stayed low for 17 years.”

The 1980s glut — when oil prices tumbled — led to geopolitical tremors across the world: The Soviet Union collapsed in 1991, while Algeria faced a political crisis that spawned a deadly civil war. Browne said demand for hydrocarbons would continue to be weak longer term, partly as a result of a greater awareness of climate change.

Low crude prices hit Oil Search’s oil-linked LNG cash flow

(Australian Financial Review; April 22) - Oil Search shares are down 63% this year and brokers are worried about challenges ahead. The Papua New Guinea-based liquefied natural gas supplier’s principal problem is the plunging oil price, as its LNG sales and oil prices are tied together. According to Macquarie Research, the heavily indebted producer requires oil at US$33 a barrel through 2020 to reach free cash-flow breakeven, as the coronavirus-induced fall in demand for energy threatens its business.

It finished the March quarter with about US$670 million in cash on hand and raised an additional US$700 million from investors in early April to shore up its balance sheet, according to Oil Search's quarterly update on April 21. However, the finance costs on a total of US$3.65 billion in debt add a material amount to its breakeven production costs. Macquarie estimates that if oil stays below US$20 a barrel for the rest of 2020 and trades below US$30 from June 2020 to June 2021, Oil Search will be in breach of debt covenants related to operating profit versus interest expense coverage on its debt.

Credit Suisse said Oil Search is exposed to political risk as it regularly has to negotiate royalty-sharing contracts with the Papua New Guinea government (a key development license expires in the second half of 2021). In 2019 the company faced political problems in PNG, and Credit Suisse warns another flare-up could deter Oil Search and its partners again. The company and ExxonMobil are working to expand capacity at their 6-year-old LNG operation, the main source of revenue for Oil Search, but have not yet taken a final investment decision on the multibillion-dollar expansion.

Oil Search's Alaska oil field development project is also questioned, given its estimated US$40 breakeven cost may not pass post-crisis return on investment metrics. Potential joint-venture partners in Alaska may also be less keen to invest as the industry slashes capital spending amid uncertainty over how the COVID-19 pandemic will affect future demand. Credit Suisse considers Oil Search’s balance sheet at risk from forced asset sales or another capital raising if oil remains below US$30 a barrel to June 2021.

Oklahoma considers letting producers close wells, retain leases

(Reuters; April 22) - Oklahoma’s energy regulator said on April 22 that oil producers could close wells without losing their leases, the first victory for struggling U.S. companies seeking relief from states after the market crash. Several U.S. states have considered aiding oil companies, many of which were already hurting before demand tanked during coronavirus pandemic lockdowns. That, and ballooning supply, sent U.S. oil prices into negative territory for the first time ever on April 20.

In an emergency order, the state energy regulator said oil companies could consider their unprofitable production economic waste, allowing oil and gas producers with money-losing wells to retain leases that could otherwise be voided if they halted output. “There was no way for Oklahoma and other U.S. producers to anticipate and plan for up to 30 million barrels per day of (global) consumption to disappear within just a few weeks,” Oklahoma Corporation Commissioner Dana Murphy said in a statement.

Oklahoma was the fourth-largest U.S. oil producer in 2019 with output of about 580,000 barrels per day, but its production costs are among the highest in the country. More than half of the rigs operating in the state at the beginning of the year have been laid down, leaving just 24 currently, according to Baker Hughes figures. Two out of three Oklahoma commissioners voted in favor of the order, enough to win approval. The emergency order will go before the state’s Corporation Commission on May 11.

China boosts oil imports from Saudi Arabia, Russia

(Asia Times; April 21) - China is ramping up oil purchases amid record-breaking demand destruction caused by the COVID-19 pandemic and as the oversupply has knocked prices and futures contracts down to levels not seen in decades. China’s oil imports rose 4.5% in March year-on-year to 9.68 million barrels a day, China’s General Administration of Customs data shows, though that is down about 5% from February.

China, the world's largest oil importer, is nonetheless seizing the opportunity of plunging prices to fill up its strategic petroleum reserves and commercial stockpiles, buying that may help arrest a further collapse in Brent crude oil prices until global demand is expected to start to resuscitate in the third quarter. Global prices for oil have collapsed by more than 60% since the start of the year due to a price war between Russia and Saudi Arabia, the world's second- and third-largest oil producers.

China's crude oil imports from Saudi Arabia rose 26% in the first two months of 2020 from a year earlier, while oil purchases from Russia gained 11%. Energy consultancy Wood Mackenzie said in March that China's crude stock, including strategic and commercial petroleum reserves, could reach 1.15 billion barrels in 2020, equivalent to about 83 days of its domestic oil demand.

Despite January trade deal, China is not buying much U.S. energy

(Reuters commentary; April 20) - Lost among the havoc being wreaked on crude oil markets by the new coronavirus crushing the world economy is the complete and utter failure so far of the deal for China to massively increase imports of U.S. energy. It may be tempting to think that the collapse in U.S. crude prices will be enough to bolster the trade, which has only stammered and sputtered a bit since Washington and Beijing signed a deal in January aimed at helping efforts to balance trade between the two.

The deal between the U.S. and China, signed on Jan. 15, called for a huge increase in China's imports of U.S. energy, amounting to an additional $52.4 billion over 2020 and 2021 — about three times the amount in 2017. Most of the increase would have fallen on crude, although China was also expected to bulk up on imports of U.S. coal and liquefied natural gas. However, since the deal was signed, China's imports of U.S. energy have barely ticked higher.

While it may be tempting to blame the coronavirus outbreak, that is not the case. China imported no U.S. oil in the first three months of 2020, and none is scheduled to arrive this month either. For May just three tankers, carrying a mere 4.63 million barrels, were expected to arrive. China has, however, started to take U.S. LNG for the first time since March 2019, though in limited amounts. While there may be politics at play, it's worth noting that U.S. crude may not be competitive with similar-quality light crudes from other regions because of high shipping costs from the U.S. Gulf Coast versus the Mideast.

Cuts to U.S. shale oil production could help boost natural gas prices

(Reuters; April 21) - Spot natural gas prices at the Waha hub in the Permian Basin in West Texas fell to their lowest in a year as mild weather and falling use by businesses and power plants cut demand for the fuel. Longer term, however, Waha forwards were trading at the highest levels in years on expectations that gas supply from shale basins like the Permian will drop as record low oil prices cause firms to scale back their drilling.

Negative Waha prices — reached several times over the past year — occurred because producers were not able to build pipelines fast enough to keep up with growing gas output associated with record Permian oil output. That forced some drillers to flare record amounts of gas or pay others to take it rather than shut oil wells because they could make enough money selling crude and other liquids to cover their losses on gas.

In response to the oil price plunge, U.S. energy companies have slashed spending on new drilling, cutting the rig count to a three-year low. Because of that, IHS Markit has said U.S. associated gas volumes — gas associated with oil production — could fall by 8 billion to 10 billion cubic feet per day by the end of 2021, noting associated gas accounts for about a third of the nation's total 96 bcf per day of gas output. At the same time, demand for gas is expected to jump later this year and in 2021 as the economy snaps back after governments loosen restrictions once the coronavirus spread slows.

State seeks rehearing against FERC approval of Oregon LNG project

(S&P Global Platts; April 21) - Oregon state agencies have joined the legal fight against the Federal Energy Regulatory Commission's conditional approval of the Jordan Cove LNG project at Coos Bay. They contend that the commission's order violates the Clean Water Act and Coastal Zone Management Act and suffers numerous other procedural and substantive flaws. The agencies filed a request on April 20 for rehearing of FERC's order approving the project and accompanying 229-mile gas pipeline.

Agencies joining in the request for rehearing included the state Department of Energy, Department of Environmental Quality, Department of Fish and Wildlife and Department of Land Conservation and Development. The challenge, lodged on multiple grounds, contributes to signs the state will fight the proposed $10 billion project, adding its legal muscle to that of environmentalists, landowners and others aligned in trying to stop it.

The state's challenge covers a lot of ground, touching on water and air quality, habitat impacts, endangered species impacts and mitigation of greenhouse gas emissions, as well as attacking FERC's economic analysis. The challenge contends that FERC's finding that the project would benefit U.S. gas producers is unsupported because FERC does not make any effort to quantify the amount of U.S. gas likely to be consumed, and because there is nothing that requires the use of U.S. gas over Canadian gas.

Opponents file federal suit to stop LNG project in Brownsville, Texas

(Reuters; April 20) - Environmental groups sued the U.S. Fish and Wildlife Service in federal court April 20, challenging its approval of a proposed $3 billion liquefied natural gas export facility in Texas over claims it threatens the endangered ocelot. The Sierra Club and Defenders of Wildlife filed in the 5th Circuit U.S. Court of Appeals, asking the court to review whether the agency violated the Endangered Species Act in finding that constructing Annova LNG at the port in Brownsville, Texas, would not threaten survival of the medium-sized wildcat, thought to number only about 60 specimens in the U.S.

It's one of several lawsuits against proposed LNG export terminals in Brownsville. In March, Save RGV (Rio Grande Valley) From LNG, the Sierra Club, Vecinos para el Bienestar de la Comunidad Costera and the city of Port Isabel filed a lawsuit against Federal Energy Regulatory Commission approval in November for Annova LNG.

Back in October, the Fish & Wildlife Service gave its approval to Annova LNG after the Houston-based developer pledged to set aside more than 1,400 acres of land and enact several other measures to help preserve the endangered ocelot and jaguarundi. The agency determined that the terminal "will not likely jeopardize the continued existence" of the ocelot and jaguarundi. In addition to creating three wildlife preserves, Annova agreed to fund a program to improve ocelot habitat on private ranches.

Global LNG exports steady in March, but expected to drop in April

(Natural Gas Intelligence; April 21) - Despite prices that have cratered since last year and a steep cut in demand caused by the COVID-19 pandemic, global liquefied natural gas supplies remain resilient and cargoes are still being delivered. Global LNG exports remained steady in March, reaching 30.4 million tonnes, or slightly under the year-ago volume, according to ClipperData.

The outlook for LNG producers has dimmed in recent weeks, however, as margins look increasingly squeezed with spot prices falling further and oil-linked LNG contract prices taking a beating as crude has fallen. Tudor, Pickering, Holt & Co. said late last week it expects global LNG demand to drop by 16% month-to-month in April. Meanwhile, U.S. LNG producers have continued to churn out exports steadily despite falling prices as production is underpinned by long-term take-or-pay contracts.

It likely will get worse. "We see uncommitted cargoes being out of the money presently" and continuing at negative margins through September, Tudor, Pickering, Holt analysts said. Looking ahead, cargo cancellations and shut-ins are likely as prices continue to fall. The Japan Korea Marker spot price hit a record low April 21 of $2.04 per million Btu. Poten & Partners analysts estimated last week that more than 10 U.S. cargoes for June lifting would be canceled due to the pandemic's impact on demand and prices.

Qatar signs with Chinese shipyard for new LNG carriers

(The Peninsula; Qatar; April 22) - Qatar Petroleum announced April 22 that it has entered into an agreement to reserve liquefied natural gas carrier shipbuilding capacity in China for the company's future fleet requirements, including those for its North Field expansion project. The agreement was entered into between Qatar Petroleum and Hudong-Zhonghua Shipbuilding Group (Hudong), a wholly owned subsidiary of China State Shipbuilding Corp.

Pursuant to the agreement, a significant portion of Hudong's LNG ship construction capacity will be reserved for Qatar Petroleum through the year 2027. "The value of this landmark agreement has the potential to be well in excess of 11 billion Qatari Riyals (US$3 billion), depending on our requirements and the extent of China's LNG shipbuilding capacity expansion," said Saad Sherida Al-Kaabi, Minister of State for Energy Affairs and president of Qatar Petroleum.

The North Field expansion project will increase Qatar's LNG production capacity from 77 million tonnes per year to 126 million tonnes. The first of several new liquefaction units is expected online by 2025. Qatar Petroleum said its carrier fleet expansion is the largest of its kind in the history of the LNG industry.

Steep drop in diesel demand tied to loss of industrial activity

(Financial Post; Canada; April 21) - Oil prices have plunged dramatically as storage tanks in Canada and across North America are filling up and as commuters stay home during the pandemic, which has knocked out demand for gasoline and jet fuel. In addition to the fall in gasoline demand, economists are now concerned about falling demand for diesel as historically the fuel has been tied closely to economic activity. Diesel powers trucks, ships, farm equipment and industrial activity.

"More worrying is that, really for the first time, we've seen a hit on diesel demand in the U.S., which has been the one bright light, or bright-ish light, for refiners because diesel margins were holding up relatively well," said Judith Dwarkin, chief economist at RS Energy Group. At its year-to-date peak, U.S. demand for distillates was 4.4 million barrels per day. That has since fallen 36% to 2.8 million last week. Diesel prices are down more than 19% to $2.48 per gallon on April 20 compared to the start of the year.

"That was a worrying sign that the economic fallout from the containment measures is now starting to seep into the broader economy. If that is the case, then we're expecting U.S. refining runs to continue to fall and Canadian refineries are in the same boat," Dwarkin said. When analysts forecast diesel demand, they look closely at GDP growth rate projections, traffic at ports and import/export volumes, said Susan Bell, an adviser in refining and marketing with IHS Markit in Calgary.