Oil and Gas News Briefs
Compiled by Larry Persily
April 30, 2020

Russian oil companies struggle to meet production cuts

(The Wall Street Journal; April 29) - Russia's adherence to a hard-fought oil production deal with Saudi Arabia and the U.S. could be imperiled by its aging industrial infrastructure and the unique challenges of winding down a broad network of wells across its vast land mass. As part of the pact, set to begin May 1, Russia committed to its biggest reduction ever, a cut of 2 million barrels a day, about 20% of its output.

But Russia's oil infrastructure isn't geared to quick and deep production cuts, analysts said. The country faces considerable obstacles, from the frigid Siberian climate where pipelines can burst without oil flowing in them, to low-yielding Soviet-era fields that are expensive to maintain and restart. Russia has some 200,000 active wells — more than most other oil-producing nations — each with unique characteristics and geology.

Most of its wells are old and require costly operations — such as water or gas injection and hydraulic fracturing — to push out the oil. About 90% of Russia's crude is produced that way, said Darya Kozlova, head of regulatory affairs at energy advisory Vygon Consulting. Wells in Saudi Arabia have more underground pressure and higher yields. "Production cuts of such magnitude have never been done in Russia … we're venturing into the unknown," said Vladimir Milov, an opposition politician and former deputy energy minister. "There are just too many technical challenges to achieve these cuts."

Many producers are finding it hard to come up with the necessary volumes to cut, said Mikhail Krutikhin, a partner in the independent RusEnergy consultancy that has advised oil companies. "They just don't know how to do it. It's a completely new paradigm."

Federal court decision on Keystone could delay permits nationwide

(Energywire; April 27) - The Army Corps of Engineers earlier this month suspended its Nationwide Permit 12 program with little fanfare after a federal court in Montana vacated a related permit for the Keystone XL oil pipeline. The stop to wetlands permits for new oil and gas pipelines and power lines could tie up construction for months. The move puts a halt to a program that fast-tracks permitting of projects that cross streams and wetlands if the site work affects no more than a half-acre of protected federal waters.

"All of my members use this permit," said Emily Sanford Fisher, general counsel for the Edison Electric Institute, whose members include utilities that provide electricity for more than 70% of all U.S. customers. The Army Corps halted the program in light of a legal fight playing out over the oil line — and it's not clear when the freeze will be lifted.

The chief of the Army Corps' regulatory program instructed offices on April 17 not to verify any pending pre-construction notifications for such permits "out of an abundance of caution" following the U.S. District Court ruling to withdraw a Clean Water Act permit for Keystone. The judge sided with environmental groups' complaints that the Corps had failed to conduct a multiagency consultation required under the Endangered Species Act to assess the risks of the program ahead of its five-year renewal back in 2017.

Fisher said developers of pipelines or power lines can still apply for individual permits to cross streams or wetlands, thereby going around the Nationwide Permit 12 program. The Army Corps or TC Energy, which is developing Keystone XL, may appeal the decision to the 9th U.S. Circuit Court of Appeals, but that would take time.

It’s possible world oil demand may never return to 2019 peak

(CNN analysis: April 29) - The world is learning to live with less oil. The coronavirus pandemic has destroyed demand for gasoline and jet fuel as billions of people stay home, and there's no guarantee it will ever fully recover despite rock-bottom prices. Employees keep working from home. International travel stays scarce. And citizens in once polluted cities, having gotten used to blue skies, demand tougher emissions controls, encouraging governments to redouble efforts to tackle the climate crisis.

Such changes would come on top of a push for investors to dump oil assets that had been gaining momentum even before the recent price crash. Sustainable energy investments, by comparison, appear to have held up relatively well despite stock market volatility. All this could mean that global oil demand never returns to its 2019 record high, a scary prospect for oil companies and employees from Texas to Western Europe, and countries such as Russia, Nigeria, and Iraq that depend heavily on selling crude.

"I think the pressure to accelerate the forces driving the energy transition will only increase as a result of this crisis," said Mark Lewis, global head of sustainability research at BNP Paribas Asset Management in Paris. Before the pandemic, analysts predicted the peak in oil demand would occur around 2040 due to the rise of electric cars, increased energy efficiency and a switch to alternative sources. But the coronavirus has forced many assumptions about the future of oil to be tossed out. "You're bringing forward what was already starting to look inevitable," Lewis said.

U.S could fall from 13 million barrels a day down to 9 million by 2021

(The Associated Press; April 28) - U.S. shale producers are being pushed to the brink of bankruptcy and experts are wondering when, and if, the oil industry will recover. The price of benchmark U.S. crude oil closed at $12.34 a barrel April 28. At the start of the year, the price was around $60. Prices are too low for most oil companies to drill new wells, and the amount of oil that existing shale wells generate declines over time. When oil companies stop drilling, that leads to long-term production declines.

IHS Markit suggests U.S. oil production could decline by 3 million barrels per day to 10 million by the end of this year and could decline to 9 million barrels in 2021. It might be that 2019 was the peak of global oil consumption, said Jim Burkhard, vice president of IHS Markit. Many producers in the U.S. are shale producers, and their wells cost more to operate than traditional drilling. Their wells also produce most of their oil in the first few years. After that, production drops off dramatically.

Majors like ExxonMobil with diversified businesses will survive, but smaller producers are going to have a harder time. “They just don’t have a lot of alternatives to stay in business once they stop production,” said Richard Marshall, head of global oil and gas industry practice at Nakisa. Many producers, especially shale companies, took on a lot of debt to finance operations and can only make ends meet at about $40 a barrel. In the shale industry, about $20 billion in debt will come due in 2021 and $30 billion in 2022.

U.K. oil and gas industry could lose 30,000 jobs

(Bloomberg; April 28) - The U.K.’s oil and gas industry could lose as many as 30,000 jobs over the next 12 to 18 months and see drilling levels plunge by a third amid the coronavirus-led crash in investment and falling energy prices. “The outlook is bleak compared to the picture of steady growth seen only two months ago, before the grip of the pandemic became clear,” industry group Oil & Gas U.K. said in a report April 28.

Prices for international benchmark Brent crude have tumbled by more than 70% since the start of the year and U.K. natural gas prices have also fallen to near-record lows. The price crash has squeezed the profitability of oil and gas operators. Oil & Gas U.K. estimates that production revenue from the U.K. Continental Shelf could fall to just 15 billion pounds ($18.7 billion) this year, based on an average Brent price of $40 a barrel. That’s down from 24.5 billion pounds last year and 28 billion pounds in 2018.

However, if Brent averages $35 a barrel this year, then the basin could fall into a negative cash-flow position of around 1.2 billion pounds, Oil & Gas U.K. said. “It is feasible that this year will see the U.K. Continental Shelf experience negative cash flow for only the third time in the 40 years since the basin first saw positive cash generation,” the report said. Capital investment in the sector will also tumble by between 20% and 30% in 2020, from a year earlier, to between 4 billion and 4.5 billion pounds.

Norway agrees to cut output for first time in 18 years

(Reuters; April 29) – Norway, Western Europe’s largest oil producer, will slash its output from June to December, the oil and energy ministry said April 29, the first time in 18 years it has joined other major producers to shore up prices. “We will cut (existing) Norwegian production by 250,000 barrels per day in June and by 134,000 barrels per day in the second half of 2020. In addition, the start-up of production of several fields will be delayed until 2021,” Oil Minister Tina Bru said.

“Consequently, the total Norwegian production in December 2020 will be 300,000 barrels less per day than originally planned by the companies. The regulation will cease by the end of the year,” she said. Oil fields that were supposed to start output later this year, but which must now wait until 2021, represent 166,000 barrels a day of the overall 300,000 barrels per day in cuts for December, the ministry added. The other 134,000 barrels will be the actual cutbacks of existing production.

Norway has restrained its oil output several times in the past, including from 1986 to 1990 and again in 1998-2000 and in the first half of 2002, always in tandem with others when prices fell. The country’s annual average oil production peaked at 3.1 million barrels per day in 2000 before slipping to a 30-year low of 1.4 million in 2019. Norway’s output stood at 1.75 million in February, up 26% from a year ago. Including condensate and natural gas liquids, the oil liquids production was 2.1 million barrels per day.

Oil majors will have to share in OPEC+ production cuts

(Reuters; April 28) - From Kazakhstan and Azerbaijan to Nigeria and Angola, oil majors are haggling with national governments over how to share in deep production cuts that add to their pain from low oil prices and depressed fuel sales because of the COVID-19 pandemic. Oil majors have traditionally escaped big cuts in OPEC nations, such as Nigeria, and have never experienced curbs in countries outside the OPEC club, such as Kazakhstan, where they are protected by special clauses in their government contracts.

But those production-sharing agreements are being set aside following a pact between the Organization of the Petroleum Exporting Countries and its allies to cut production to boost prices as coronavirus lockdowns reduce oil demand. Such unprecedented output reductions, effective May 1 for OPEC+, are impossible in most nations without the help of majors. Azerbaijan has asked its BP-led group to cut its offshore output, and Kazakhstan was close to a deal with majors to reduce production as well, sources said.

It’s not yet possible to predict exact production cuts as majors and governments are still locked in difficult talks. They could amount to a record-high hundreds of thousands of barrels a day per major, or 5% to 10% of their output based on the exposure to OPEC+ nations. "We have never done it before since they came to the country in 1994," a senior Azerbaijani official said. In Kazakhstan the government was close to a deal with foreign operators of its Kashagan and Tengiz oil fields to cut output by 22% from May.

U.S. producers rent storage at Strategic Petroleum Reserve

(Bloomberg; April 28) - U.S. oil producers running out of space for storage amid an unprecedented slump in demand have started sending crude to the nation’s emergency stockpile. This month 1.1 million barrels have been delivered into Strategic Petroleum Reserve storage. The Energy Department has finalized contracts announced earlier this month for companies to rent about 23 million barrels of capacity in the reserve.

On April 14, the department said it was negotiating leasing deals with nine producers, with most of the oil to be delivered in May and June, and possible early deliveries in April. It’s part of a plan by the Trump administration to help drain the nation’s growing glut of crude as commercial storage quickly fills up. The oil earmarked for storage under the program was to be aggregated from small, medium, and large producers and companies can schedule return of their crude through March 2021, minus a small amount to cover storage costs.

Singapore Strait becomes parking lot for tankers

(Bloomberg; April 27) - A narrow waterway off Singapore has become even more congested as oil-laden tankers wait out a slump in global fuel consumption that’s crimped demand and boosted the use of ships to store cargoes. About 60 petroleum-product tankers are currently anchored along the busy strait, up from the usual 30 to 40 ships, said Rahul Kapoor, head of commodity analytics and research at IHS Markit. Utilizing tankers as storage has become the next best option as onshore tanks fill up, with analytics firm Vortexa estimating floating crude storage in Asia at a four-year high.

While some ships are being used to hoard fuel at sea as onshore tanks fill up, others are parked, waiting to be sent to any willing buyer across the world as the coronavirus pummels economies. Tankers filled with products such as gasoline and jet fuel are moving from refinery hubs such as South Korea and China due to a crash in domestic demand and swelling stockpiles. These tankers are finding their way to the Singapore Strait, where the glut is being compounded by offloading delays at the city state.

Storage options are dwindling globally as onshore tanks rapidly fill to capacity, prompting traders, refiners, and others to seek alternatives such as pipelines and ships.

“Major fuel-exporting countries are facing difficulties finding homes for their surplus barrels,” said Sri Paravaikkarasu, Asia oil head at global energy consultant FGE.

Oil collapse threatens Nigeria, which needs $133 to cover costs

(The Wall Street Journal; April 27) - The crash in oil prices and the economic fallout from the coronavirus together pose what could be a threat for Africa’s largest economy and biggest oil producer. Nigeria, a country of 200 million people, is slashing production faster than any other major oil economy following the steep plunge in global prices. Tankers full of millions of barrels of Nigerian crude have nowhere to go.

The result is a shock for an economy that has become a symbol of how virus-induced economic pain is cascading from wealthy nations to the developing world. “When there are no more vessels to load the crude, then the entire world collapses,” said Kola Karim, chairman of Shoreline, Nigeria’s third-largest oil producer. “You will have serious, serious security implications. Unrest.” At least seven vessels carrying 12 million barrels of unsold Nigerian oil are stranded at sea, said data-analytics company Vortexa.

Oil accounts for 60% of government revenue in Nigeria, which has already slashed its 2020 budget by $5 billion and contacted the International Monetary Fund for $7 billion in emergency funding. Nigeria’s break-even oil price is $133, the highest in the world due to high refining costs and government corruption, according to Fitch Ratings.

Regardless of low prices and growing stockpiles, stopping production is risky because some wells are too old to restart once they go idle. “Nigeria is a drug addict about to go cold turkey,” said Matthew Page, a former U.S. State Department official in Nigeria now at London-based think tank Chatham House. “Its governmental structures, predicated on dividing up the national cake of petroleum revenues, are now unsustainable.”

Even at a discount to Brent, Nigeria has trouble selling its oil

(Bloomberg; April 28) - The oil price crash isn’t getting any easier for Nigeria. Africa’s largest economy is particularly vulnerable to the oil-price rout. The country, which has a fiscal breakeven well above $100 a barrel, mostly sells very light crudes low in sulfur — a similar variety to those that the U.S. produces in abundance these days. Worse for Nigeria, it lacks the space to store surplus oil at a time the cost of hiring ships to take its supplies to importers has soared because tankers are being used for floating storage.

Like a lot of producing countries, Nigeria sells its crudes at differentials to benchmarks. For Nigeria, that marker is Dated Brent, published by S&P Global Platts. The marker stood at $14.68 a barrel on April 28. Two of Nigeria’s banner grades — Qua Iboe and Bonny Light — will sell at discounts of $3.92 and $3.95 respectively to Dated Brent in

May, according to a price list seen by Bloomberg. Two traders said that the prices still won't be cheap enough for Nigeria to find buyers for its excess cargoes.

The dire state of the oil market has meant that, despite being so cheap, Nigerian barrels have been selling slowly. Traders estimated that, as of late last week, about 30 out of 65 May-loading cargoes still hadn't been sold. Normally, just a handful would still be available so late in a month.

Even older, more expensive U.S. tankers are pressed into service

(Reuters; April 27) - Oil traders are hiring expensive U.S. vessels, normally only used for domestic shipments, to store gasoline or ship fuel overseas, shipping sources said, in a sign of the energy industry's desperation for places to park petroleum amid a 30% drop in worldwide demand. Storage tanks onshore and floating storage in tankers on the water are rapidly filling, leaving fewer options for traders looking to sock away oil.

Several shippers said they have started to book Jones Act vessels for foreign voyages or to store refined products. The century-old Jones Act requires that vessels traveling between domestic ports be owned and operated by U.S. crews, and they are generally more expensive than other vessels. "It's very unusual to use Jones Act tankers for international trips," a shipping source said. Those restrictions, and lack of availability, typically make the tankers more expensive than foreign-flagged vessels.

About 45 products tankers are Jones Act compliant, shipping data reviewed by Reuters showed. "Utilization of Jones Act tankers is at 100%," said Basil Karatzas of New York-based shipping finance advisory firm Karatzas Marine Advisors, which is active in the Jones Act market. He said some older U.S. tankers that had been planned to be scrapped may end up being used as floating storage.

Russia says high storage inventories will hold down oil prices

(Reuters; April 28) - Russian Energy Minister Alexander Novak said oil markets would start balancing out once an output deal takes effect in May, but no significant price rise is likely in the near future due to high levels of oil in storage. The Organization of the Petroleum Exporting Countries and other large producers, including Russia, agreed to cut output by almost 10 million barrels a day, or 10% of global production, in May and June.

Additional cuts are expected from countries such as the U.S., Canada, Norway, and Brazil to combat the fallout from the global spread of the novel coronavirus that has hit economic activity worldwide. "However, you shouldn't wait for a significant rise in the price of a barrel in the nearest future due to high inventories,” Novak wrote in a column in the ministry’s in-house magazine published on April 28.

The main concern for the oil market is even though the size of the output cuts is unprecedented, demand has fallen even more and storage capacity for all the unused oil is shrinking quickly. Fuel demand is down 30% globally, and storage is becoming precious, with roughly 85% of worldwide onshore storage full as of last week, data from intelligence firm Kpler showed. Separately, Alexander Gladkov, the head of production and transportation at Russia’s Energy Ministry, told an online conference on April 28 that the oil price was expected to average $30 per barrel this year.

Oil and gas industry cutbacks delay new projects at Corpus Christi

(The New York Times; April 28) - Ever since the Obama administration and Congress lifted the export ban on liquid fossil fuels in 2015, the Port of Corpus Christi, Texas, has seen a steady tide of construction, creating nearly 10,000 permanent jobs and bringing in $54 billion in investment. But the coronavirus pandemic, which has slammed the brakes on economic activity nationwide, threatens to put a stop to the flow of money.

The expansion included new pipelines, oil export terminals, LNG export plants, storage depots and refineries. Corpus Christi is now the largest energy exporter and third-largest port in the U.S. by tonnage. But April turned out to be a cruel month for that fossil fuel business. After the virus outbreak forced Americans into a lockdown, demand for fuel plummeted while prodigious oil production from Texas added to a global surplus.

Sean Strawbridge, the port’s CEO, has reached two conclusions. First, construction that is underway will continue, including expansion of Cheniere Energy’s LNG export plant and a $10 billion chemical plant to turn natural gas liquids in polyethylene. Work started last year on that development by ExxonMobil and Sabic, its Saudi Arabian partner.

But other than those projects, “It’s a different time,” he said. Developments are being delayed and companies are scaling back their oil and gas production. A year ago the demand for oil export capacity in Corpus Christi was predicted to climb to 2.5 million barrels a day by mid-2021. But in April, oil exports from Corpus Christi started marching in the opposite direction, falling to 1.3 million barrels daily from 1.8 million in January.

U.S. energy production in 2019 exceeded consumption

(U.S. Energy Information Administration; April 28) - In 2019, for the first time since 1957, energy production exceeded energy consumption in the United States on an annual basis, according to the U.S. Energy Information Administration’s Monthly Energy

Review on April 28. The U.S. produced 101.0 quadrillion Btu of energy and consumed 100.2 quads last year. After both energy production and consumption hit record highs in 2018, U.S. energy output in 2019 grew 5.7% but energy consumption decreased 0.9%.

U.S. domestic energy production has grown substantially during the past decade. The growth is largely a result of increases in oil and gas production from hydraulic fracturing and horizontal drilling. Petroleum has accounted for the largest share of U.S. energy consumption since 1950, even though it has fallen nearly 9% from its peak in 2005. Since 2008, U.S. coal consumption has decreased nearly 50%, primarily because coal has been displaced by natural gas and renewables in the electricity sector.

U.S. natural gas consumption has increased by about 35% since 2000 and reached an all-time high in 2019. Record-high U.S. oil and gas production led to growing exports of the fuels, providing an outlet for producers to sell their product. And while fossil fuel production grew, renewable energy consumption also grew. That category, which includes renewable-powered electricity generation, biofuels and biomass, grew by 88% 2000 to 2019, by which time its share of consumption was nearly the same as coal.

Novatek objects to closure of airport that serves Yamal LNG

(The Barents Observer; Norway; April 28) - The closure of the airport in Sabetta on Russia's Yamal Peninsula comes as more than 140 people now are registered as carriers of the coronavirus in the remote industrial town. According to the Russian news agency TASS, 22 people have been sent to hospitals in regional capital Salekhard and oil town Novy Urengoy. The remaining 121 workers have been isolated in Sabetta, the news agency reported. The airport serves the Yamal LNG terminal and also is close to the Arctic LNG-2 project, which is the early stages of construction.

Health authorities in the Yamal-Nenets region decided to close the airport, the Russian newspaper Kommersant reported. The decision was soon protested by Novatek, which operates Yamal LNG and is the lead partner in Arctic LNG-2. Novatek subsidiary Yamal LNG argued that regional health authorities are not entitled to close the airport.

The situation poses a serious challenge for Novatek. More than 30,000 workers are engaged in company operations in Sabetta. Several thousand more are believed to be involved in construction of Arctic LNG-2 in the Gydan Peninsula across the bay from Yamal. The virus outbreak in Novatek's key project sites could hamper progress for the company's major Arctic plans. Yamal and Arctic LNG-2 are important to Russia's objective to significantly boost its presence in global LNG markets.

Global LNG trade grew 13% in 2019

(LNG Global; April 27) - The International Gas Union on April 27 released its annual report, noting that global trade in liquefied natural gas set a record in 2019 at 354.7 million tonnes, up 13% on 2018. The U.S. (13.1 million tonnes), Russia (11 million) and Australia (8.7 million) added the most production capacity in 2019. Expansion is set to continue, with 24.35 million tonnes of new capacity coming online in 2020 — boosting worldwide capacity to 455 million tonnes a year. Capacity far exceeds actual production.

In addition, almost 21 million tonnes of additional annual capacity in Africa was sanctioned in 2019 and will add to global supplies in the early 2020s. With record low prices this year driven by a strong oversupply and weakened demand, the global supply glut is likely to persist for at least another two years, the International Gas Union said. "This will mean continued depressed prices," IGU said. "This is then likely followed by a period of recovery, with renewed uncertainty around the middle of the decade."

At the receiving end, as of February 2020, total LNG regasification capacity worldwide was 821 million tonnes per year across 37 markets with the addition of six new import terminals and expansions at three existing terminals. Bangladesh, Brazil, China, India, and Jamaica combined built seven regas terminals, adding 23 million tonnes of capacity in 2019. China and Europe imported more LNG in 2019, while Japan and South Korea both took less. Egypt and Argentina swung from LNG imports to LNG exports.

More companies look to drill natural gas wells in Texas

(Houston Chronicle; April 27) - Some operators in the Texas oil patch appear to be making a bet on natural gas prices going up. Drilling permit filings are down on record-low oil prices, but the percentage of gas well applications is up. Some 25 companies filed a meager 69 drilling permits with the state April 15-21. Of those, four companies filed eight permits for wells that only produce gas — a record 12% of the total.

Gas-rich resource plays such as the Haynesville Shale of East Texas and Barnett Shale of North Texas appear to be the beneficiaries. West Texas Intermediate, the U.S. benchmark for crude oil, is trading at record lows and even went negative last week. Natural gas, however, is approaching $2 per million Btu and poised to go higher. Fewer oil wells being drilled means less natural gas being produced as a byproduct, which many traders believe will send gas prices to levels not seen in years.