Oil and Gas News Briefs
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Inexpensive natural gas makes it harder on renewables

(Bloomberg; Feb. 14) - This will almost certainly be a record-breaking year for the advance of solar and wind power across the U.S. The additions in progress or planned are significant enough to boost hopes for emissions-free electrical grids within a generation — if gas doesn't get in the way. But it just may. Gas is such a bargain that it's being viewed less as a bridge fossil fuel, driving the world away from dirtier coal toward a clean-energy future, and more as a hurdle that could slow the trip down.

Some forecasters are predicting gas prices will stay low for years, making it tough for states, cities, and utilities to achieve their goals of being zero-carbon in power production by 2050 or earlier. "The fact that there's an abundance of it (gas) makes the move to complete decarbonization much harder," said Ravina Advani, head of energy, natural resources and renewables at France-based bank BNP Paribas. Gas is a tough competitor, Advani said. "It's reliable and it's cheap."

The flood of inexpensive gas does have a big environmental upside as it puts increased pressure on coal plants that add significantly to global warming. But it's also squeezing margins for nuclear reactors, which are the biggest source of carbon-free power in the U.S. And it's driving utilities to invest in infrastructure that could ensure gas remains central to the power mix for decades. Solar and wind are certainly winning in many markets on price alone, but without cheap gas the renewables build-out would be faster, said Cody Moore, head of gas and power trading at Mercuria Energy America.

Pipeline protests push Canadian rail operators to shut down services

(CBC News; Canada; Feb. 13) – Canadian National freight and Via Rail passenger services are shutting down huge sections of their networks as Indigenous blockades continue to cripple Canada's transportation systems. Via Rail is temporarily ending most services nationwide, expanding an earlier stoppage that restricted train cancellations to the Toronto-Ottawa-Montreal corridor. CN Rail is "initiating a progressive and orderly shutdown of its Eastern Canadian (freight) network" because Tyendinaga Mohawk protesters near Belleville, Ontario, have so far refused to dismantle their blockade.

CN Rail has obtained a court injunction to end the illegal Mohawk demonstration, but protestors have ignored the order and the federal government has refused to intervene. Indigenous Services Minister Marc Miller agreed to meet with the Mohawks on Feb. 15.

The Mohawk activists have said they won't end their protest until the RCMP leaves the territory of the Wet'suwet'en in northern British Columbia. Wet'suwet'en hereditary leaders had been blocking road access to a construction site for the Coastal GasLink pipeline, a key part of a C$40 billion LNG Canada liquefied natural gas export project.

Canadian Prime Minister Justin Trudeau is facing growing calls from industry groups to remove the crippling rail blockades as talks between the government and protesters have failed to resolve the crisis. The growing nationwide protests are in support of the Wet'suwet'en and their fight over the gas pipeline and its route through their lands.

Qatar postpones decision on partners for LNG expansion

(Reuters; Feb. 16) - Qatar has delayed choosing Western partners for the world's largest liquefied natural gas project by several months after surprising the industry with a big expansion plan despite a collapse in global prices, sources said. State-run Qatar Petroleum declined to comment. The reported delay comes as the LNG industry is challenged by a supply glut due to booming U.S. output and a drop in Chinese demand.

Qatar, the lowest-cost LNG producer, sits on the world's largest gas field and offers terms that led oil majors to invest tens of billions of dollars in the past. The energy firms have waited a decade for a new opportunity to invest after Qatar put development on hold to ensure the giant North Field could sustain more production. The moratorium was lifted two years ago and QP shortlisted six Western majors for the expansion. QP didn't disclose the names but said it would announce partners in the first quarter of 2020.

QP late last year decided to expand LNG production by 60% to 126 million tonnes a year by 2027 instead of the original plan for a 40% increase. "I think Qatar has decided to firm up the capex of the project before they go to international oil companies. I think the decision should be ready by the end of 2020," a source said. Other sources verified the delay to at least the middle of 2020 because scaling up of the expansion combined with a much lower gas price outlook had affected every aspect of potential partnerships.

"Qatar's cost base is very low compared to other projects but in today's environment, every project has to compete for capital," a source said. Qatar, which has a wealth fund of over $320 billion, has said it would build the facilities alone if necessary but would prefer to have partners to share risks and costs as well gain access to new customers.

North Dakota lawmakers hold hearings on oil-savings Legacy Fund

(Bismarck Tribune, ND; Feb. 16) - Residents of the Bakken oil patch have a chance to tell North Dakota lawmakers how they would like to see the state's oil savings account used. The Legislature's Legacy Fund Earnings Committee is holding public meetings around the state. Lawmakers last year created the committee to take public input on how to use the fund's earnings, which eclipsed $455 million in the latest two-year budget cycle.

North Dakota voters in 2010 approved creating the fund from 30% of the state's oil and gas tax revenue — savings that couldn't be touched until 2017. The fund now has about $6.75 billion. Legislators last year looked at numerous ideas from lawmakers and Gov. Doug Burgum for using the fund, including replacing the state income tax, creating an infrastructure loan fund and setting up a state-administered paid family leave program.

All those proposals failed to pass and the Legacy Fund's earnings have so far been used to balance state budgets and to backfill a shorted school aid fund. Separate from the earnings, the Legislature can tap up to 15% of the fund's principal every two years, but only by a two-thirds vote. But it's the earnings, which accrue over each budget cycle and then transfer to the general fund, that have been the Legislature's area of focus.

Burgum in his 2020 State of the State address last month outlined a model to grow the Legacy Fund to more than $26 billion by 2033. His proposal would reinvest about half of the fund's earnings in its principal. Earnings not put into the principal would be used in three different areas: infrastructure, property tax relief through "smart growth incentives" and "transformational legacy projects," such as career academies.

Russia's new tax incentives target Arctic oil and gas

(CBC News; Canada; Feb. 15) - Last month the Russian government pushed through legislation creating $300 billion in new incentives for ports, factories, and oil and gas developments onshore and offshore in the Arctic. The incentives are part of a plan to more than double maritime traffic through Russia's Northern Sea Route and give a boost to state energy companies like Gazprom, Lukoil and Rosneft. Analysts say the immediate impact will be increased offshore oil and gas exploration and development.

Russia's tax incentives for offshore oil and gas developments includes a reduced 5% production tax for the first 15 years. Projects in the east Arctic receive an even larger break — no extraction tax for the first 12 years of operation. Russia may be borrowing a page from Canada's incentives book in drafting the policy. Doug Matthews, a Canadian energy writer and analyst, said the package sounds "rather like our old national energy program in the … Beaufort back in the '70s and '80s."

Russia's minister of the Far East and Arctic said the incentives will result in three new offshore oil projects. Currently, there is only one producing offshore oil platform. State oil companies are also expected to intensify their onshore operations. Rosneft's Vostok oil project will involve construction of a seaport, two airports, 500 miles of pipelines and 15 new towns in the Vankor region. Projects in the Laptev, East Siberian, and Chukchi Seas — nearer to Alaska — are "more distant prospects," said Nikita Kapustin of the state-funded Energy Research Institute of the Russian Academy of Sciences.

Industry warned that China unlikely to buy that much U.S. oil and gas

(Bloomberg; Feb. 12) - Industry leaders privately warned the Trump administration that the U.S. will struggle to produce the oil, gas, and other energy products that China has committed to buy in a new trade deal, raising additional questions about one of the president's signature economic achievements. The Phase 1 deal signed by President Donald Trump on Jan. 15 calls for China to purchase an additional $52.4 billion in liquefied natural gas, crude oil, refined products, and coal over the next two years.

To do that, China would have to import an additional 1 million barrels per day of crude, 500,000 barrels a day of refined products and 100 tankers a year full of liquefied natural gas, the American Petroleum Institute cautioned last month in a closed-door meeting with the Energy Department. Those amounts would strain shipping infrastructure and production capacity and would require China to buy more oil than the U.S. government has predicted the country will add in new production by 2021, the lobbying group said.

The warnings were detailed in briefing materials seen by Bloomberg News and confirmed by two people familiar with the late January meeting. The session was requested by the Energy Department as the agency sought to understand how China's purchase commitments would affect the U.S. oil and gas industry after the trade pact was inked. In addition, analysts have already warned that contractual and logistical constraints could make it hard for China to make good on its purchase commitments.

Associated gas from shale oil wells continues to flood market

(Bloomberg; Feb. 12) - How cheap would you like your natural gas today? Is zero low enough? OK, how about we pay you to take it off our hands? That's what's happening in the middle of the U.S. shale patch at the moment — and it's a symptom of a glut that could reshape energy markets across the world in the coming years. Gas prices at the Waha hub in Texas' Permian Basin fell to minus 26.8 cents per million Btu this week.

They're heading in an even more "aggressively negative" direction, said commodities broker OTC Global Holdings, as a shortage of pipeline capacity makes producers jostle for a place in line. Selling a commodity for a negative price isn't quite as crazy as it sounds — it's a relatively common occurrence. For example, take fuel oil, the gloopy crude used by boilers in ships, buildings and power stations. It has hardly ever earned positive margins for refiners. Instead they aim to make their money on gasoline and diesel, treating the fuel oil as a waste product from which they can extract a few dollars.

That’s the current situation with natural gas in the U.S. A growing proportion of output is produced not for its own sake but as a byproduct of shale oil, where operators don’t care about the price of gas as long as it doesn’t stop them making money on the crude. This so-called associated gas has increased nearly fourfold from 4.3 billion cubic feet per day in 2006 to 15 bcf in 2018, according to the Energy Information Administration, comprising about 37% of shale gas production and 12% of total U.S. gas output.

Sub-$3 spot LNG prices could force cancellation of U.S. cargoes

(S&P Global Platts; Feb. 13) – The drop in China’s energy demand from a spreading coronavirus outbreak could increase the chances that some U.S. LNG exporters will have to curtail shipments that were already at risk due to a global glut of gas, industry analysts warned. Several analysts have lowered their forecasts of China's LNG demand in 2020, even as they differ in estimates of the severity of the impact of the coronavirus.

LNG prices in Europe and Asia had already plummeted before the outbreak as a result of rising gas supplies, especially U.S. LNG, added to a mild winter and weak demand. But the outbreak dealt another blow. China's imports of LNG, oil and other commodities slumped with quarantines and travel restrictions. Fitch Ratings warned Feb. 11 that fewer Chinese LNG imports "could put gas markets in Europe and Asia under severe stress" and "significantly delay the supply-demand rebalancing expected in 2020."

Analysts said prices have almost weakened to the point that off-takers of U.S. LNG might decide to cancel cargoes. Spot prices this week under $3 per million Btu are below U.S. LNG producers' cash break-even costs, Sanford C. Bernstein & Co. analysts said Feb. 12. "We see clear evidence of U.S. LNG supply being reduced as a result, which should help bring the market back into balance," the analysts said. Fitch said the low prices could force some production shut-ins and delay final investment decisions on the next generation of projects that have a target of coming online by the mid-2020s.

Spot LNG prices continue falling, drop down to $2.70

(Reuters; Feb. 14) - Falling demand from China has driven Asian spot prices for prompt deliveries of liquefied natural gas to new lows this week of around $2.70 per million Btu. China’s transport, commercial and industrial sectors have all been affected by the fast-spreading coronavirus outbreak, traders said. The average LNG price for March delivery into northeast Asia lost an additional 25 cents this week.

Several cargoes sold this week at below $3, traders said, indicating there was too much supply in the market. Russia's Sakhalin-2 plant sold a cargo for loading on March 16 to Japan's Mitsui at $2.70 to $2.80, industry sources said. GAIL (India) bought a cargo for Feb. 23-28 delivery at $2.40 to $2.50, the sources said. India's GSPC bought 7 cargoes for delivery over April to October at prices ranging from $2.50 to $3.30. The spot deals for February to March are the lowest the cargoes have ever traded, traders said.

[LNG market needs to hold down supply to rebalance, trader says]

(S&P Global Platts; Feb. 14) – U.S. LNG producers were encouraged Feb. 14 to shut in some supply amid the global glut that is helping drive down prices in Asia, or push more volumes to markets beyond Europe, perhaps Latin America. The takeaway from the final day of the 19th annual S&P Global Platts LNG Conference in Houston was that something has to give, and soon, to allow for more liquefaction projects to be built in time to fill a projected supply shortage around the middle of the decade.

Qatari expansions and additional units coming online in the U.S. that were sanctioned years ago, in addition to supplies coming from Australia and other exporting countries, are pumping more LNG into traditional end-use markets than those markets can handle. Prices have cratered in recent months to under $3 per million Btu. Weaker-than-expected demand, a relatively mild winter weather, the coronavirus outbreak and Chinese tariffs have all made the situation worse.

"The global market needs to balance [things out] by turning off supply. It's got to get somebody to do that. It has not done that in a significant size," said Andrew Helm, a senior LNG trader at British utility Centrica. "There are just more cargoes looking for homes than there are slots at times," Helm said. The challenges are significant for the next wave of U.S. suppliers. Most of the dozen or so developers of new terminals targeted to start up around the mid-2020s have struggled to secure long-term contracts with off-takers to finance construction. Some have delayed final investment decisions.

[Oregon LNG project on FERC agenda for Feb. 20]

(The Associated Press; Feb. 14) – The Federal Energy Regulatory Commission had been expected to decide Feb. 13 on a proposed liquefied natural gas export terminal and 229-mile gas pipeline in Oregon. But FERC announced that the project will be part of a crowded agenda when it meets on Feb. 20. If the commission approves the project, which lacks state permits, it will likely set up a court battle over state's rights.

Former river guide State Sen. Jeff Golden has insisted that Oregon law cannot be preempted by the federal government. Oregon Gov. Kate Brown said last month she "would consider all available options to safeguard the health and environment of Oregon" if the federal government ignores state permitting processes. The Oregon Department of Environmental Quality has already denied a water quality certificate for the Jordan Cove LNG project proposed by Calgary-based Pembina. The company later pulled its application for a different state permit and while it awaits a FERC decision.

The $10 billion project planned for Coos Bay would provide an outlet for Rockies and Canadian gas production struggling to find downstream demand. But even if it wins federal authorization, the developer still needs to line up sufficient customers and financing before proceeding to construction. FERC spokeswoman Mary O'Driscoll said the commission is still considering records in the case. "The commission will meet on Feb. 20. The item is on the agenda. That's all I can say," O'Driscoll said in an email.

[Empty LNG carriers idle off the coast of Qatar]

(Bloomberg; Feb. 13) - At least 12 empty liquefied natural gas carriers are sitting idle off the coast of Qatar, the world's second-biggest producer of the fuel, as the deadly coronavirus plays havoc with international commodities markets. The reasons for the unusual gathering of ships aren't immediately clear, but the timing coincides with ship diversions, cargo cancellations and reduced demand in Asia.

The parked vessels have returned after delivering cargoes to places including India, Pakistan, Bangladesh, South Korea, Japan, and Poland. Some have been floating just offshore Qatar's LNG production lines since last week, ship-tracking data on Bloomberg shows. In ordinary times, the ships would be reloaded for more deliveries, but the virus outbreak has cut back on China's demand for the fuel, affecting the global market.

Analysts from Wood Mackenzie to IHS Markit and Rystad Energy have cut their projections for China's LNG demand growth as a result of the virus, which has closed factories and curtailed travel across the region. One Qatari vessel, the Al Hamla, loaded a cargo in Qatar on Feb 1 and has been idling since then.

[U.S. shale industry in tight spot with investors]

(Bloomberg; Feb. 13) - The boom has busted for the exploration and production companies behind what has been spectacular growth in U.S. crude output. Many are burning through cash and struggling to meet investor expectations. In Texas the biggest oil-producing state and home to most of the prolific Permian Basin, the number of active rigs tumbled 24% last year. Oil prices are down as much as 19% this year.

How well shale producers can cope will be a key question as quarterly earnings come out. "North America is full of companies that, on the E&P (exploration and production) side, probably shouldn't be here anymore," said Marcel Hewamudalige, a Houston-based director at Evercore Group, at an industry conference in Houston. "There's no more E in the E&P business," said Ken Hersh, the former chief executive officer of private equity firm Natural Gas Partners. "Exploration is a thing of the past."

The shale revolution unlocked previously inaccessible reserves of oil and gas, making U.S. production of both the highest in the world. But that abundance has also helped create a global glut, keeping a lid on prices. What's more: the shale sector has found itself on a treadmill. Fracked oil and gas wells suffer steep declines in their production compared to conventional wells, compelling shale producers to keep drilling simply to maintain output and cash generation, even in the face of low prices. That approach has seen the industry build up a high level of debt, an increasing concern for investors.

Pipeline projects would move more Canadian gas to Gulf Coast

(Natural Gas Intelligence; Feb. 13) - Western Canadian production would gain a route to liquefied natural gas export terminals on the U.S. Gulf Coast from a pipeline expansion announced Feb. 13 by TC Energy. The Alberta XPress project would add $300 million in infrastructure to TC subsidiary ANR Pipeline's 10,600-mile, bidirectional delivery system that runs from the Great Lakes region to Texas, Louisiana, and Oklahoma.

Supply from the Western Canada Sedimentary Basin will reach ANR through three other TC conduits: Nova Gas Transmission Ltd. (NGTL) in Alberta and British Columbia, the TransCanada Mainline, and Great Lakes Gas Transmission. The company plans to file its application for the project at the Federal Energy Regulatory Commission in 2020, start construction before the end of 2021 and bring the expansion online in 2022.

TC also announced a C$900 million (US$675 million) addition, called the NGTL Intra-Basin System Expansion, to a series of multibillion-dollar capacity increases that are already underway on its gas supply collection grid in Alberta and British Columbia. The schedule for the new NGTL package calls for an application to the Canada Energy Regulator in 2020, construction in 2021, and a 2023 in-service date for shippers.

BP wants to be a net-zero emissions company by 2050

(CNBC; Feb. 12) - BP said Feb. 12 it was aiming to become "a net zero (emissions) company by 2050 or sooner," and that it also wants to "help the world get to net zero." In announcing its plans, BP listed a number of aims, including: Cutting the carbon intensity of products it sells by 50% by 2050 or earlier; installing methane measurement at its major oil and gas processing sites by 2023 and halving the methane intensity of operations; and upping the proportion of its investment in non-oil and gas businesses.

In order to push the world toward net zero, BP said it would undertake actions such as “more active advocacy” for policies supportive of net zero, like carbon pricing. “The world’s carbon budget is finite and running out fast, we need a rapid transition to net zero,” new BP CEO Bernard Looney said in a statement. “We all want energy that is reliable and affordable, but that is no longer enough,” he said. “It must also be cleaner.” The company did not announce specific, detailed plans for projects or its operations.

BP said its goal covers greenhouse gas emissions from its operations as well as the oil and gas it sells. “It directly addresses all the carbon we get out of the ground as well as the greenhouse gases we emit from our operations. These will be absolute reductions, which is what the world needs,” Looney said. Wells Fargo Securities’ Equity Research group described BP’s move as a “modestly positive event” for the company: “By directly addressing the … elephant-in-the-room with a clear forward path BP may see a greater universe of potential investors willing to kick the tires on this carbon-intensive sector.”