Oil and Gas News Briefs
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Low prices could be good news long term for LNG industry

(Reuters commentary; Jan. 28) - It's been an extremely weak start to the new decade for liquefied natural gas with spot prices in Asia falling to more than 10-year lows. The average spot price for LNG delivered to North Asia for March dropped to $4 per million Btu the week to Jan. 24. The price is down 41% from its winter peak of $6.80, hit in mid-October. To put the current price in perspective, the winter peak the past two years was $10.90 and $11.50. The record high is $20.50 from the winter of 2013/14.

A combination of factors is working to drive prices lower, both structural and temporary. The temporary factor is that the northern Asian winter has so far been milder than usual, crimping demand for heating, and thus for LNG, in top importers Japan, China, and South Korea. There's nothing LNG producers can do about the weather. The structural factor is that the LNG market is well-supplied given the completion of the last of eight new projects in Australia and the commissioning last year of four in the United States.

The oversupply likely will continue for some time, given the long list of projects under construction as well as proposed. And the glut will hurt the economics of new projects and lead to longer payback times on investment. But it's not all doom and gloom. Lower prices will help make LNG more price competitive, especially in Asia, where it struggles against coal and renewables. If more countries and utilities sign up to build LNG import facilities and gas power plants, as well as switch to gas for industry and households, it will give the LNG industry a hard-to-lose client base with capital sunk into infrastructure. Low prices offer the LNG industry an opportunity to seize, and hold, market share.

Oil market reacts more to virus than actual supply losses

(Reuters commentary; Jan. 28) - A question for the oil market: Why is the potential loss of a few hundred thousand barrels per day of demand from the coronavirus in China more important than the loss of about 1 million barrels per day of supply from Libya? The spread of the virus has pummeled the price of crude as the market fears it will lead to a slump in fuel demand as people cancel travel and economic activities are curtailed.

But while dramatic headlines help to drive sentiment-driven price swings, it's interesting to note that the physical oil market has tightened considerably in recent weeks. Civil conflict in Libya has knocked almost 1 million barrels a day offline. Nigeria's exports are also under a cloud with major producer Shell declaring force majeure on shipments on

Jan. 22 after a pipeline was shut. Kazakhstan suspended oil shipments to China on Jan. 16 after the discovery of excess levels of chloride, although some flow has resumed.

The point is that the actual loss of supply to the world crude market from Libya and Nigeria is far higher than the potential loss of demand due to the coronavirus. Such is the sentiment-driven nature of trading in futures that it's possible oil prices will continue to struggle as long as the media headlines paint a picture of a virus spreading, infecting more people and threatening economic growth across China and the rest of Asia.

Gas flaring an issue in election for Texas regulatory commission

(Bloomberg commentary; Jan. 27) - An election held in the U.S. in 2020 could do a lot to shape global climate outcomes in the immediate future. But it's not for president. It's a race for a seat on the Texas Railroad Commission, which holds immense power as the regulator of the state's vast oil and gas industry. Booming oil and gas production across the Permian Basin of West Texas has made this little-known regulator, with three voting members, a pivotal decision-maker for the U.S. contribution to climate change.

The reason for this comes down to natural gas flaring. Drillers in Texas, as in other places, are allowed to burn off vast amounts of gas that is a byproduct of oil production. This is done, in part, because of the expense involved in capturing the gas, putting it into pipelines, and moving it to processing facilities. It costs more than the gas is worth, so they burn it. And it happens with permission from the Texas Railroad Commission.

Burning off the gas prevents the unchecked release of methane, an extremely potent greenhouse gas that causes as much as 36 times more warming than carbon dioxide in the 100-year period after its release, according to the Environmental Protection Agency. But allowing Texas drillers to burn unwanted gas is a harmful solution: Tons of carbon dioxide and other pollutants enter the atmosphere without yielding any useful energy.

"This is the most important environmental race in the country," said Chrysta Castaneda, one of four Democrats vying to be the first non-Republican commissioner in more than 25 years. The commission "is not enforcing the laws" on flaring, she said. The commission has never denied a flaring permit for other than administrative reasons.

Falling natural gas prices cut into coal's market share in Europe

(Bloomberg; Jan. 27) - Cheaper natural gas prices this year are likely to cement Europe's shift away from coal as a fuel for producing power. Abnormally mild winter weather has cut demand for coal while a flood of new gas supply entered the world's biggest gas market. That along with higher costs for carbon-emissions allowances has tilted the economics of generating electricity away from coal and toward gas.

The shift has been welcomed by policy makers led by German Chancellor Angela Merkel's administration, which is looking at ways to accelerate the closure of its coal industry. Its priority is keeping power flowing while reaching ambitious pollution targets on climate change. A lower cost for gas helps that process. "Policy makers in Europe are now happy with such low natural gas prices," said Ewout Eijkelenboom, senior consultant at the Netherlands-based industry adviser Kyos Energy Consulting. "It makes the coal phase-out easier than expected. It is almost a natural way of exiting coal."

Falling gas prices are a global phenomenon. Liquefied natural gas projects are pumping out record numbers of cargoes, cutting wholesale gas costs from the U.S. to Asia. That in turn has helped push down the cost of electricity across Europe, taking some of the heat out of the political debate about energy. Benchmark gas in Amsterdam plunged to a five-month low last week because of the global glut.

India steps up push to renegotiate LNG terms with Qatar

(S&P Global Platts; Jan. 29) - India is stepping up pressure on Qatar to renegotiate long-term liquefied natural gas supply deals and move away from oil-linked contracts as LNG prices hit multi-year lows, but any flexibility may require a commitment to buy more gas, analysts told S&P Global Platts. Like the rest of Asia, the bulk of India's term deals are oil-linked but falling spot LNG prices amid bulging global supplies have resulted in a pushback from buyers seeking to renegotiate those deals or rely more on spot markets.

"It's unlikely Qatar will accept lower prices unless it's compensated by higher volumes," said Chinmayee Atre, LNG analyst at Platts. Qatar's Energy Minister Saad al-Kaabi met recently with India's Petroleum Minister Dharmendra Pradhan amid India's hopes that Qatar might renegotiate LNG contracts. "Al-Kaabi and I explored ways to make LNG more affordable for a price-sensitive market like India," Pradhan said after the meeting.

But there's been no commitment from Qatar on whether it would look into renegotiating deals, although some analysts said they wouldn't rule out pricing flexibility in the future. "We don't disclose commercial terms. We don't negotiate long-term contracts," Kaabi told reporters in New Delhi. However, some analysts said India may have an upper hand as it won a price concession from Qatar in 2015 in exchange for higher volumes.

"This is clearly a good time for LNG buyers to request a renegotiation in their oil-indexed long-term contracts and buyers globally will continue to make these requests," said James Waddell, senior global gas analyst at Energy Aspects. "Spot cargoes are abundant and around half the price of gas under typical oil-indexed contracts. We see this situation continuing at least through 2021." Spot-market deliveries to Asia have been selling at under $4 per million Btu, about half the cost of oil-linked cargoes.

California stuck for hundreds of millions of dollars to clean up wells

(Los Angeles Times; Jan. 24) - California is looking at a massive bill to clean up the deserted oil and gas wells left behind by businesses that have gone defunct as the industry has fallen back, said a report released Jan. 23 by a state research agency. The California Council on Science and Technology estimated the state already is liable for more than $500 million in cleanup costs for over 5,500 orphaned wells across the state. The potential liability far outpaces the funds the state has on hand to combat the issue.

The companies with wells identified as orphaned in the 67-page report made just $26 million available to the state for their cleanup. And the state's responsibility could quickly grow, the report said. An additional 69,000 wells have little to no production and little hope of restarting or are held by financially weak businesses. Judson Boomhower, an energy expert and assistant professor of economics at UC San Diego who was lead author of the report, said the state has recently taken steps to require a greater financial commitment from oil and gas companies to avoid being saddled with the responsibility.

"However, our initial analysis implies that the potential cost to the state still substantially exceeds the value of these assurances," Boomhower said. The report said orphaned wells are concentrated in Los Angeles and Long Beach, where costs associated with cleanup are "systematically high." Though some of the wells are offshore, "the vast majority of orphan wells in the state are located onshore," the report said. "These wells represent potentially large liabilities for the state."

Audit says Colorado losing out on oil and gas tax revenues

(Colorado Public Radio; Jan. 28) - Colorado could be losing millions of dollars in tax revenues. A new state audit finds that oil and gas companies operating in Colorado have failed to submit thousands of monthly reports used to track how much energy they produce. In turn, those reports help the state determine if the companies have paid the right amount of taxes. The audit also says regulators aren't imposing penalties or tracking the missing or incomplete production reports.

"Based on these assumptions, we estimate that operators would have been subject to about $308 million in penalties for delinquent reports for the 30-day period, none of which the [Colorado Oil and Gas Conservation] Commission actually imposed," according to the audit. The chair said members of the bipartisan Legislative Audit Committee appeared to be shocked at the findings. Republican Sen. Jim Smallwood, a member of the committee, said the audit revealed a systemic weakness in government.

The audit said 10 percent of operators also filed reports with missing information. The commission, however, challenged the audit's figures, adding that penalties are a compliance mechanism, not a revenue source. "The audit's $308 million figure assumes that all operators did not comply after receiving a notification and that all were fined at the maximum amount," the commission said in a prepared statement. "We know that when operators receive notifications, they tend to comply before a penalty is assessed."

Oil field service companies cut back spending

(Bloomberg; Jan. 26) - U.S. shale oil fracking has peaked and is in a period of sustained contraction, according to two major providers of services. That view from Halliburton and Schlumberger signals an eventual deceleration in U.S. oil production from record highs. Slower output growth would have global ramifications, given that additional U.S. barrels are forecast to account for most of the increase in worldwide supply this year.

Halliburton Chief Executive Officer Jeff Miller said last week that customer spending in North America will keep falling this year. That echoes Schlumberger, which said Jan. 24 it is continuing to shrink its business in the region to match lower demand. The oil services industry has cut thousands of jobs in the U.S. and scrapped unwanted fracking equipment in recent months as shale companies slash spending in a bid to generate free cash flow amid a stagnant oil market and slumping natural gas prices.

The deep retrenchment indicates a lack of conviction that demand for services will ever recover. Halliburton said last week it's slashing its own spending by 20 percent from last year to $1.2 billion to keep up with a changing market. Halliburton cut 22 percent of its frack fleet last year, Miller said. Schlumberger, the largest oil and gas services company, has already reduced its pressure-pumping fleet in half, and said Jan. 24 it has no intention of bringing that equipment back into service.

Opponents' next step is court to stop LNG projects in Brownsville

(Houston Chronicle; Jan. 27) - Opponents of three proposed liquefied natural gas export terminals at the Port of Brownsville in Texas are a step closer to filing a federal lawsuit to halt the projects after losing requests to have permit decisions reconsidered. Over the past week, the Federal Energy Regulatory Commission denied requests from the Sierra Club, Texas RioGrande Legal Aid, and other opponents to reconsider the agency's Nov. 21 decision to issue permits for Texas LNG, Annova LNG, and Rio Grande LNG.

Under federal law, the next step for opponents seeking to stop the projects would be a lawsuit. "These projects would disproportionately impact our already-marginalized Latino community, subject us to increased air pollution, and threaten our local tourism economy," Sierra Club Brownsville organizer Rebekah Hinojosa said in a statement. "We will not stop fighting to ensure that these dangerous facilities are never built."

Located just a few miles north of the U.S./Mexico border, the three projects would receive gas via pipelines from the Permian Basin of West Texas and other shale plays across the U.S. "FERC is legally required to evaluate the impacts of this proposed facility and the other two nearby facilities on low-income and minority communities," Texas RioGrande Legal Aid Attorney Erin Gaines said in a statement. "With this decision, they have failed to live up to that responsibility."

Cameron LNG asks FERC for 6 more years to develop expansion

(Reuters; Jan. 27) - Cameron LNG has asked U.S. energy regulators for a 72-month extension until May 2026 to build the second phase of the joint-venture's Cameron liquefied natural gas export plant in Louisiana. The company said in a filing with the Federal Energy Regulatory Commission on Jan. 24 that it anticipates making a final investment decision by mid-2021 to add two additional liquefaction trains to the site. Cameron LNG said construction of the new trains would likely take up to 58 months.

One train is already operating at the plant and the company has said it expects its second and third trains to enter commercial service in the first and third quarters of 2020, respectively. The company has said that first phase of the project cost about $10 billion. Each of the trains are designed to export about 5 million tonnes per year. FERC in 2016 approved construction of the fourth and fifth production units, with an in-service deadline of May 2020. The joint-venture said it needs the extension because one of its partners — it did not identify which one — did not want to invest in the expansion.

Cameron is owned by affiliates of California-based Sempra Energy, France's Total, Mitsui & Co, and Japan LNG Investment, a company jointly owned by Mitsubishi and Nippon Yusen Kabushiki Kaisha. Sempra owns 50.2% of Cameron. U.S. LNG export capacity is expected to jump to 10 billion cubic feet of gas per day by the end of 2020 (about 76 million tonnes per year of LNG) and 10.7 bcf a day in 2021 from 7.8 bcf now.

LNG project in Quebec targets investment decision in 2021/22

(Natural Gas Intelligence; Jan. 24) - A target of late 2021 or early 2022 for a final investment decision has been set by natural gas venture Gazoduq, which is planning for a pipeline to supply up to 1.8 billion cubic feet of natural gas per day to a proposed liquefied natural gas export project in Canada 130 miles east of Quebec City, just north of the St. Lawrence River and its access to the Atlantic Ocean.

For an estimated US$3.8 billion, Gazoduq would bury 470 miles of 42-inch-diameter pipe to make the connection with existing pipelines carrying gas from Western Canada, moving the gas across Ontario to the US$7.5 billion Energie Saguenay LNG terminal in Quebec. "The start of the construction phase cannot be delayed without significantly affecting the project schedule," said Gazoduq in a detailed plan filed at the Impact Assessment Agency of Canada.

The terminal would be capable of exporting 11 million tonnes of LNG per year. It is proposed to start operations in 2025. Gazoduq and Energie Saguenay belong to the GNL Quebec partnership of Breyer Capital in Menlo Park, California, and Freestone International in San Francisco.

Developer pulls state permit application for Oregon LNG project

(The Associated Press; Jan. 24) - A Calgary-based company has pulled its application for an Oregon state permit for a controversial cross-state pipeline and liquefied natural gas export terminal. A project spokesman said Jan. 24 it is instead awaiting possible federal approval. Two Oregon state lawmakers accused the Jordan Cove Energy Project on Jan. 24 of stalling so that the Trump administration, which has embraced the project, could approve it in an attempt to override denials by Oregon state agencies.

The Oregon lands department had been expected to deny a permit for the project on Jan. 31 after State Lands Director Vicki Walker refused a request by Jordan Cove to extend a Jan. 31 deadline to submit missing information. The developer responded by telling Walker in a letter Jan. 23 that it was immediately withdrawing its application for a removal-fill permit, needed to dredge sediment out of Coos Bay for the LNG export terminal and to construct the pipeline through and under waterways in southern Oregon.

"The applicant's behavior over the last year ... suggests to us they are not significantly focused on gaining necessary approval from state agencies. It appears that they are counting instead on approval of their broader application to the Federal Energy Regulatory Commission," Sen. Jeff Golden, of the Rogue Valley, and Rep. Pam Marsh, of Ashland, said in a letter to Walker. A project spokesman said in an email that it is awaiting a final determination from FERC, which is expected next month, "at which time we will determine our path forward." Opponents are vowing to resist the project.

Novatek has big plans for Arctic LNG and expanded carrier fleet

(High North News; Norway; Jan. 27) - Novatek has shared more details about its planned liquefied natural gas projects in Russia and announced its intent to order up to 42 ice-capable Arc7 LNG carriers in the coming years. The company said it will acquire 10 new tankers from foreign shipyards, while placing the remaining orders with Russia's Zvezda shipyard. Earlier this month, Novatek asked for a waiver from Russia's domestic-build requirement for the ships, amid growing concerns about timely delivery.

The opening of Novatek’s newest and largest Arctic gas project, Arctic LNG-2, is about three years away. Likely bidders for the new carriers will be South Korea’s Daewoo Shipbuilding & Marine Engineering, Hyundai Heavy Industry and Samsung Heavy Industry. China’s Hudong Zhonghua shipyard, a subsidiary of state-company China State Shipbuilding, is also reportedly vying for the work by offering attractive financing.

In addition to Yamal LNG, which started operations in December 2017, and the nearby Arctic LNG-2 terminal under development, Novatek is looking at a third Siberian project, Ob LNG, and maybe one or two more. Chairman Leonid Mikhelson said an investment decision on the smaller Ob LNG (5 million tonnes a year) is expected in the second half of 2020. Yamal is 16.5 million tonnes, while Arctic LNG-2 will be 19.8 million tonnes. If company goes ahead with all of its proposals, totaling 80 million tonnes of capacity per year, it could need as many as 42 additional LNG carriers to join its existing fleet of 15.

Permian’s newer wells may not keep pace with declining older wells

(Bloomberg commentary; Jan. 25) - The heart of America’s oil renaissance is in the Permian Basin, which is showing signs of maturing fast. For shale basins, that’s not a good thing. If the region wanes, U.S. oil independence will remain elusive and the OPEC cartel may finally see off its greatest threat. The Permian, spread across west Texas and southeast New Mexico, yields more than a third of all U.S. oil production. Its boom has allowed America to export more than 3 million barrels a day on a regular basis since May — more than any OPEC country except Saudi Arabia and Iraq.

Output from the region, where oil was first discovered a century ago with a well that produced just 10 barrels a day, is hitting new records. But the latest edition of a federal drilling report shows that the Permian rig count fell to 402 in December, down from 485 a year earlier. Partly offsetting that decline, operators are getting more new oil per rig. However, the efficiency increases suggest the improvement is from a renewed focus on the most productive parts of the play, rather than technological breakthroughs.

The report also breaks out production from new wells and legacy production from the rest. This is particularly important in shale deposits because of the rapid drop in output once a well is brought into use. Production from new wells has to more than offset the declines from a growing number of older wells for overall output to grow. With the rig count flat at 400 units and the average new output per rig at 810 barrels a day — where we are now — Permian production will peak in just over a year’s time. After that, it will start to fall at an accelerating rate as the burden of legacy-well declines keeps growing.

OPEC may extend output cuts until June to support higher prices

(Reuters; Jan. 28) - OPEC wants to extend current oil output cuts until at least June from March with the possibility of deeper reductions on the table if oil demand in China is significantly affected by the spread of a new coronavirus, OPEC sources said. The quick slide in oil prices over the past few days has alarmed OPEC officials, the sources said, as the new virus found in China and several other countries raised concerns about a hit to economic growth and oil demand.

On Jan. 27, benchmark Brent crude hit a three-month low of $58.50 a barrel. Saudi Arabia, OPEC's de-facto leader, joined by key oil producers such as the United Arab Emirates, Algeria, and Oman, sought to calm market jitters, urging caution against gloomy expectations on the impact of the virus on the global economy and oil demand. But OPEC officials have also started weighing their options and intensified internal discussion on how best to respond to the price slump, the sources said.

"A further extension is a strong possibility and a deeper cut is a possibility," said one OPEC source, adding that the impact of the virus on oil demand would be clearer over the coming week. "Extension is highly possible ... until June," a source said, adding that an additional option is to extend the pact until the end of 2020 and that a deeper cut is "possible." A source familiar with Russian thinking said that although Moscow earlier was keen to exit from the cuts, it would stay on board if oil continues to trade below $60.

Venezuela considers letting foreign oil companies take control

(Bloomberg; Jan. 27) - Facing economic collapse and painful sanctions, the socialist government of Venezuelan President Nicolas Maduro has proposed giving majority shares and control of its oil industry to big international corporations, a move that would forsake decades of state monopoly. Maduro’s representatives have held talks with Russia’s Rosneft, Spain’s Repsol and Italy’s Eni.

The idea is to allow them to take over government-controlled oil properties and restructure some of the debt of state oil company Petroleos de Venezuela (PDVSA) in exchange for assets, according to people with knowledge of the matter. The proposal, which could offer a balm to the country’s disintegrating oil industry, is in early stages and faces major obstacles. Venezuelan laws would have to be changed, there is disagreement over how to finance the operations, and Washington’s sanctions bar any U.S. companies from doing business with the Maduro regime without a waiver.

Once an admired state-dominated company producing 3.5 million barrels per day, PDVSA is pumping a record-low 700,000 barrels a day despite sitting on the world’s largest known reserves. Its finances are in tatters and the central bank’s hard-currency reserves have plunged to the lowest in three decades. Several U.S. contractors, including Chevron, have temporary licenses to operate in Venezuela. It is unclear what would happen to those licenses if Maduro were to proceed with this proposal.

Exxon stock lowest since 2010 while company bets on future

(Bloomberg; Jan. 28) - It's almost as if the past decade never happened for investors in ExxonMobil. Once the gold-standard of Big Oil, the stock closed Jan. 27 at its lowest since October 2010, amid a slump in oil prices due to concerns about weak demand coupled with a glut. The S&P 500 posted its worst one-day decline since October, but for Exxon, which fell out of the index's top 10 largest companies by market value for the first time last year, the malaise runs deeper than the state of the crude market.

CEO Darren Woods is running a counter-cyclical strategy by investing heavily in new oil and gas assets, at a time when many investors are demanding energy companies improve returns for shareholders. Some shareholders are even demanding a plan to move away from fossil fuels altogether. Exxon is betting on a "windfall of cash" to arrive from its investments sometime in the mid- to late 2020s, said Noah Barrett, a Denver-based energy analyst at Janus Henderson, which manages $356 billion.

Exxon is boosting capital spending to over $30 billion a year as it develops offshore oil in Guyana, liquefied natural gas in Mozambique, chemical plants in China and the U.S. Gulf Coast, as well as several refinery upgrades. Woods is convinced the world will need oil and gas for the foreseeable future and sees an opportunity to expand while competitors shy away from similar long-term plans. The short-term cost of those investments is that Exxon can't fund dividends with cash from operations and must rely on asset sales and borrowing, said analyst Jennifer Rowland, at Edward Jones & Co.

China boosts exports as refinery output surpasses domestic needs

(Reuters; Jan. 28) - China is set to further expand its massive oil refining capacity this year, offering support to global oil prices, and U.S. producers in particular, but its plans spell more gloom for Asia's hard-hit refining industry. Already the world's No. 2 oil refiner after the U.S., China added 800,000 barrels per day of capacity last year and analysts expect a further 460,000 barrels to become operational in 2020. Domestic demand for the products, however, has failed to keep pace. Total Chinese exports of diesel, gasoline, and jet fuel jumped 20% in 2019, affecting global refining margins.

"The growth in product supplies will far outpace the expected demand growth of transportation fuels, adding pressure to already weak regional cracks," said Chen Jiyao, oil consultant with FGE. Analysts expect aviation fuel and gasoline to lead China's export growth this year due to bulging supplies and slackening domestic demand, pinching refining profits at regional exporters such as South Korea and Singapore. China is already Asia's No. 1 exporter of gasoline and jet fuel and ranks No. 3 in diesel.

Aviation fuel is set to lead exports with a 20% increase due to faster expansion in domestic production versus declining domestic demand growth, said Wang Yanting, Shandong-based analyst at consultancy JCL Network Technology. Curbs on air travel amid fears that the coronavirus epidemic will further dampen jet fuel consumption.

Guardian newspaper bans all ads from oil and gas companies

(The Guardian; Jan. 29) - The Guardian newspaper will no longer accept advertising from oil and gas companies, becoming the first major global news organization to impose a ban on taking money from companies that extract fossil fuels. The move, which follows efforts to reduce the company's carbon footprint and increase reporting on the climate emergency, was announced Jan. 29. It will take effect immediately. The ban will apply to any business primarily involved in extracting fossil fuels.

"Our decision is based on the decades-long efforts by many in that industry to prevent meaningful climate action by governments around the world," the company's acting chief executive, Anna Bateson, and the chief revenue officer, Hamish Nicklin, said in a joint statement. They said the response to global heating was the "most important challenge of our times" and highlighted the Guardian's own reporting on how lobbying by energy companies has explicitly harmed the environmental cause.

Environmental groups have long argued that energy companies use expensive advertising campaigns to "greenwash" their activities, paying to highlight relatively small investments in renewable energy while continuing to make the vast majority of their revenue from fossil fuels. They have called for news outlets to reject such advertising, although until now only a handful of small outlets have adopted this approach. The Guardian will continue to accept ads for cars and other users of fossil fuels.