Oil and Gas News Briefs
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Saudi-led alliance ready to start bringing back production

(The Wall Street Journal; July 11) - An alliance of crude oil producers led by Saudi Arabia is pushing OPEC and its allies to increase oil production starting in August, officials in the group said, amid signs that global oil demand is returning toward normal levels following the easing of some coronavirus-related lockdowns. Key members of the Organization of the Petroleum Exporting Countries and its Russia-led allies are set to meet by web conference July 15 to debate the group's current and future production.

In April, Saudi Arabia, the world's largest oil exporter, led a push for the 23-producer group to cut its collective output by 9.7 million barrels a day, as the pandemic had led to a collapse in demand. Now Saudi Arabia and most participants in the coalition support loosening the curbs, the delegates said. Under a Saudi proposal, the OPEC+ coalition would relax its cutback by 2 million barrels a day to 7.7 million, the delegates said.

"If OPEC clings to restraining production to keep up prices, I think it's suicidal," said a person familiar with the Saudis' thinking. "There's going to be a scramble for market share, and the trick is how the low-cost producers assert themselves without crashing the oil price." Producers' relative optimism coincides with a report from the International Energy Agency showing the worst effects of the coronavirus on global oil demand have passed but will continue to echo as demand slowly recovers in the second half of 2020.

Former BP exec predicts oil to hover around $44 to $55

(S&P Global Platts; July 10) - Global oil prices will likely strengthen over the coming 18 months to hover around $45 to $55 per barrel if economies continue to reopen and OPEC+ follows through on efforts to drain oil stocks that surged during the peak of pandemic lockdowns, BP's former chief financial officer Brian Gilvary said a week after retiring from a 34-year career at the oil major. Gilvary said oil prices could spike higher, however, if oil demand continues to bounce back from crushing lows in April.

Despite fears of a snapback to lockdowns due to second-wave COVID-19 infections, implied driving activity — a proxy for gasoline and diesel demand — has now recovered to well above pre-crisis levels in a number of key markets such as the U.S. and Europe. "I don't see a massive upside case for prices but you might get short-term spikes," Gilvary told S&P Global Platts in an interview July 9.

"I think we have to see the big overhang in stocks (storage) clear out now before we get back to numbers up around $45 to $55, which I think depends on what the next wave of COVID looks like," he said. Global oil inventories have swollen by more than 1 billion barrels since the start of the COVID-19 pandemic, a level that is expected to hold down the oil price recovery. In addition to record global oil stock levels, Gilvary noted that the world can also count on a bigger supply buffer from OPEC, which — even before the current output cuts — was sitting on spare capacity of over 3 million barrels per day.

IEA warns COVID resurgence could derail oil recovery

(Bloomberg; July 10) - The International Energy Agency has bolstered its outlook for global oil demand, but warned that the recovery could be derailed by the resurgence of coronavirus. A collapse in fuel consumption during the second quarter was slightly less severe than previously estimated, and demand should rebound sharply over the next three months as economic activity resumes, the agency said in a monthly report.

Bloated inventories will diminish as OPEC and its allies persevere with vast production cuts, the IEA predicted. Yet a flare-up of the virus, which is raging across several U.S. states and re-emerging in Asia, is "casting a shadow over the outlook," the IEA cautioned. "The large, and in some countries, accelerating number of COVID-19 cases is a disturbing reminder that the pandemic is not under control and the risk to our market outlook is almost certainly to the downside," the IEA said.

International oil prices have more than doubled from the lows reached in late April, trading just under $42 a barrel on July 10, as fuel use picks up and crude supplies are reined in. The shockwaves of the coronavirus crisis are, however, still being felt. Global oil demand is on track to slump by 7.9 million barrels a day, or about 8%, this year as lockdowns and the economic contraction reduce the need for products like jet fuel. Global oil supply dropped to a nine-year low of 86.9 million barrels a day last month.

Analysts debate a future of $100 oil versus $50 oil

(The Wall Street Journal; July 9) - Investors and analysts are trying to work out what the rest of the decade holds in store for oil. Some think the bust will set in motion a boom, predicting that investment will dry up and propel prices back above $100 a barrel. "Could we see oil move to $100 over the next two years? Absolutely," said Christyan Malek, an analyst at JPMorgan. Others say the pandemic will sap fuel demand even after the threat of contracting the coronavirus has faded, cementing an era of cheap oil.

The high-price predictions are at odds with the futures market, however, which pegs Brent crude at less than $60 for the rest of the decade. Malek believes the investment belt tightening will have a lasting impact on the ability to produce oil. He estimates that 5 million barrels a day — roughly 5% of pre-COVID-19 levels — will be lost, and that an additional $625 billion will need to be invested by 2030 for production to meet demand.

The debate over the long-term direction of oil is thorny. In the long run, most analysts agree prices should gravitate to a level at which producers profit from making just enough crude to match demand. But COVID-19 has made that calculation more complex. Investors are unsure whether the pandemic will permanently alter transport and consumption patterns or expedite the move toward cleaner energy sources.

The case for soaring prices rests on investors and banks cutting back on new development funding, leading to a shortfall of crude supply. Still, for many, a return to $100 oil is fantastical. Producers will be able to pump more than enough at $50, said Citigroup analyst Edward Morse. Technological improvements have lowered production costs, he said, while the pandemic will encourage people to keep working from home and flying less, crimping oil demand.

U.S. oil and gas bankruptcies expected to continue

(Reuters; July 9) - A wave of oil and gas bankruptcies in North America is likely to continue this year as oil prices remain depressed and a new surge of COVID-19 cases threaten to stall any recovery in fuel demand, law firm Haynes and Boone said in a report released this week. Bankruptcies surged in the second quarter, including from major shale independents Chesapeake Energy and Whiting Petroleum, as oil prices collapsed due to the pandemic and with a price war between Saudi Arabia and Russia.

There were 18 U.S. producer bankruptcies in the second quarter, according to a report by Haynes & Boone, the highest quarterly figure since the second quarter 2016, when there were 34. In total, 23 oil producers and 18 oil field service firms have sought protection from creditors this year. U.S. oil futures are currently about $40 a barrel, a level that “is not a sufficient clearing price for many heavily leveraged shale producers,” the report said. In the second quarter alone, producers filing for bankruptcy held over $29 billion in debt with shale pioneer Chesapeake Energy accounting for $9 billion.

Supreme Court decision on tribal lands raises complex questions

(Reuters; July 10) - A U.S. Supreme Court decision recognizing about half of Oklahoma as Native American reservation land has implications for oil and gas development in the state, raising complex regulatory and tax questions that could take years to settle, according to Oklahoma attorneys. The court on July 9 overturned an Oklahoma tribe member’s rape conviction because the location where the crime was committed should have been considered reservation land and therefore outside the reach of state law.

The decision does not affect property ownership, but attorneys said it has regulatory and tax implications within reservation lands of the state's "Five Tribes" — Cherokee, Chickasaw, Choctaw, Creek, and Seminole. Oklahoma was the fourth-largest U.S. crude producer last year, accounting for about 5% of production. "You'll see the Five Tribes make arguments perhaps that they have taxation authority," said Taiawagi Helton, who teaches environmental, property, and Indian law at the University of Oklahoma.

"It's possible you could see some slight increases in taxation," with companies paying production taxes to both the state and tribes, he said. "For pipeline approvals, tribes will expect to have a broader consultative role," Helton said. Tribes may not want to act immediately, but this case suggests they would have regulatory authority over oil and gas, said Oklahoma energy attorney A.J. Ferate. "We're talking about decades of litigation and questions. We're in a whole new world here in Oklahoma as to how do all of these pieces fit together," Ferate said.

Russian pipeline gas to China costly for both countries

(Radio Free Asia; July 10) - Russia's natural gas prices for China have started to drop amid signs that the contract for supplies from the Power of Siberia pipeline will prove costly for both countries. Last month Interfax reported that the price of gas from Russia's giant pipeline project fell 10% in April to US$5.18 per thousand cubic feet from over US$5.67 in the first quarter, based on Russian and Chinese customs data. Initial deliveries from the new 1,864-mile pipeline began last November at US$6.01.

Price changes take place under an agreement between Gazprom and state-owned China National Petroleum Corp. that tracks the cost of competing products including fuel oil with a nine-month lag for adjustments, according to Interfax. While the trend has been down during the pandemic, Power of Siberia gas is still far more expensive than liquefied natural gas, which have hit record lows in the Asian spot market.

A separate report indicated that Gazprom's prices for China are far higher than those for its other customers. In April, the average price for European markets fell 13% from a month earlier to US$3.09. The reports suggest that China's price for Russian gas is likely to remain higher than Europe in the near term, barring renegotiation.

Edward Chow, a senior associate at the Center for Strategic and International Studies in Washington, D.C., said the price premium for China would have to be even higher to cover the huge US$55 billion cost of field development and pipeline construction in remote East Siberia. "Under current market conditions, the Power of Siberia deal does not look commercially attractive to either Gazprom or CNPC," Chow said. "CNPC is locked into a 30-year supply contract for gas that may be too expensive."

It’s getting a lot harder to build new oil and gas pipelines

(The New York Times; July 8) - They are among the most significant U.S. infrastructure projects: 9,000 miles of oil and gas lines are being built or expanded and 12,500 miles have been approved or announced. But pipelines are being challenged as never before as protests spread, economics shift, environmentalists mount increasingly sophisticated legal attacks and more states seek to cut back on fossil fuels to stem climate change.

This past week, a federal judge ordered a shutdown of the 3-year-old Dakota Access oil line and developers abandoned plans for an $8 billion mid-Atlantic gas pipeline. Those 3,000 miles of pipelines represent a fraction of the planned build-out nationwide, but they underscore the growing obstacles that pipelines face, particularly in regions like the Northeast where governments have pushed for a faster transition to renewable energy.

Many of the biggest projects are in friendlier states along the Gulf Coast, and even some there are facing backlash. “You cannot build anything big in energy infrastructure in the U.S. outside of specific areas like Texas and Louisiana, and you’re not even safe in those jurisdictions,” Brandon Barnes, a litigation analyst with Bloomberg Intelligence, said. The growing opposition represents a break from the past decade, when pipelines were built from newly accessible shale basins in North Dakota, Texas, and Appalachia.

Environmental groups have grown increasingly adept at mounting legal challenges to permits. Strong grass roots coalitions, including Indigenous groups, that understand the legal issues and the intricacies of the projects have led the pushback. “As states are pushing to get greener, they’re starting to question whether they really need all this pipeline infrastructure,” said Christine Tezak with ClearView Energy Partners.

U.S. LNG production falls to 20-month low

(Reuters; July 8) – Feed gas flows to U.S. liquefied natural gas export plants plunged this month after falling to a 20-month low in June as coronavirus lockdowns cut global demand for the fuel. Before the pandemic slashed demand, U.S. gas producers counted on LNG exports to keep growing as an outlet for their record output. But after soaring 68% in 2019 and 53% in 2018, U.S. LNG exports are expected to rise just 7% in 2020.

Gas pipeline flows to U.S. LNG export plants dropped to an average of 3.1 billion cubic feet per day so far in July from a 20-month low of 4.1 bcf per day in June and a record high of 8.7 bcf a day in February, according to Refinitiv data. With U.S. LNG capacity rising as new units enter service, utilization of those plants has collapsed from 85% to 90% in 2019 to just 32% so far this month as buyers cancel dozens of cargoes.

So far this month, only five vessels picked up cargoes from the six U.S. LNG export plants — two from Cheniere Energy’s Sabine Pass in Louisiana, two from Cameron

LNG's plant in Louisiana and one from Dominion Energy's Cove Point in Maryland, according to Refinitiv. No ships have visited Cheniere's Corpus Christi plant in Texas since June 29, Freeport LNG in Texas since June 27, or Kinder Morgan's Elba Island plant in Georgia since January.

Oil sands producers start to restore output as price recovers

(Bloomberg; July 8) - At least 20% of shut-in Canadian oil production is being restored, just months after the price crash forced producers in Alberta's oil sands to slash up to 1 million barrels a day of output. Cenovus Energy and Husky are among companies that have resumed shut-in production as Western Canadian prices near $40. Imperial Oil, operator of the Kearl oil sands mine and Cold Lake wells, also expects to return to full output after most maintenance wraps up in the second quarter, CEO Brad Corson said.

"We're seeing a strong price signal to bring production back," Cenovus CEO Alex Pourbaix said on a TD Securities conference webcast. "Nobody should be surprised to see our production moving back to full production capacity. We are significantly cash-flow positive at the levels we're at now." Long exposed to steep price discounts for crude that must travel thousands of miles amid limited pipeline access, oil sands companies were quick to slash production when the pandemic obliterated energy demand. Alberta's oil output fell by almost 25%, according to provincial estimates.

Oil companies face new set of challenges, former exec says

(S&P Global Platts; July 10) - The world's transition to cleaner, low-carbon energy presents a unique set of challenges and opportunities for integrated oil companies as they struggle to meet investor needs and climate-change goals, said Brian Gilvary, BP's former chief financial officer. He said oil majors are facing tough decisions on where to invest in renewable energy, power markets, low-carbon mobility, and battery technology.

One of the biggest challenges is investing at scale in low-carbon businesses which are able to generate returns anywhere close to the levels of traditional upstream oil and gas model, he said. Historically, investors have been used to seeing double-digit average internal rate of returns from the oil sector, levels widely seen as unrealistic outside the world of capex-heavy, upstream mega-projects. "One of the things I've heard from some investors is they are not looking for energy companies to dilute returns by investing in renewables," he told S&P Global Platts in an interview July 9.

Another key challenge for the oil sector is the shunning of fossil fuel investments by banks and financial institutions, creating problems of access to capital particularly for smaller players, Gilvary said. With societal pressure building against fossil fuels, he sees a different suite of investments in the future with the onus on countries' themselves to develop their own natural resources.

West Texas crashes from oil boom to bust

(The Wall Street Journal; July 11) - When an oil bust takes hold in West Texas, no one is spared: Drilling rigs collect dust, barber chairs sit empty, students drop out of school and lines swell at the food bank. The collapse in the wake of the new coronavirus has been historically brutal. In a matter of weeks, global demand for oil shriveled by more than 20% this spring, as people hunkered indoors and stopped flying and driving.

Oil prices crashed. A fracking industry that had pushed U.S. output to a world-leading 13 million barrels a day went into full retreat. And the nation's hottest oil field, the Permian Basin, all but shut down overnight. Last year the Permian region was one of the hottest labor markets in the country. Construction was soaring, hotels were charging rates rivaling those of Manhattan, barbers were earning up to $180,000 a year, and schools were trying to cope with housing costs that were surging along with oil output.

By the end of last year, that frenzy was slowing as investors withdrew after years of disappointing returns. Now everyone from restaurants to ranchers is struggling to survive as companies pull back on drilling new wells and turn off existing ones that are uneconomical. By early July, there were just 125 rigs drilling in the Permian, roughly one-third the number at the end of 2019. This is what it looks like when a boom busts.

Abe Guerrero, 57, who was furloughed from his safety manager job at oil field trucking company, recently waited in line at a food bank in Odessa. "It's like a third-world country," he said. The manager at the West Texas Food Bank said 74% of the households collecting food in April had never been to the food bank before.

Texans confront reality of wells in their neighborhoods

(Houston Chronicle; July 10) - An explosion jolted Jim and Mary Alice Estes awake one morning last June as light from a nearby fireball danced on the walls of their home. The giant flare was from natural gas burning at an oil well being put into production a few hundred feet behind their property. A drilling rig had been parked behind their Bethel Springs Lane home for months, but nobody warned the couple or their neighbors in the Magnolia Creek subdivision that that type of production work would be taking place. Plans to drill two more wells at the site make the Esteses and other residents nervous.

It was a rude awakening, literally, to a reality that thousands of city and suburban residents across Texas endure with oil and gas operations in their backyards — some five years after the passage of House Bill 40, a law that was supposed to sort out legal issues for drilling within city limits. “That bill put profits over people and has made cities afraid to fight back,” Mary Alice Estes said. “None of the people who signed that bill would want to live in our house, on our street and experience what we experienced.”

Supporters of the law say drilling is safe and that the law gives cities the authority to control traffic, noise, and light, and to require wells to be a certain distance from homes and businesses. Critics, however, say the debate over distance requirements remains unsettled and the law leaves cities powerless to deny drilling permits. The vast majority of the state’s 438,000 oil and gas wells are in rural areas, but there are thousands in cities and suburbs. In North Texas, most of the Dallas-Fort Worth metroplex sits atop the Barnett Shale formation, which produces vast amounts of gas.

Loss of new pipeline could hurt Marcellus shale gas prices

(Bloomberg; July 10) - To understand why the cancellation of the $8 billion Atlantic Coast Pipeline at the start of this week was such big news, consider America’s most important gas-producing region. Appalachia is home to the Marcellus shale, a major driver of the fracking boom that’s driven down prices and helped to make the U.S. a net exporter of natural gas for the first time. Production from the basin was expected to rebound as some U.S. states reopen after pandemic-driven lockdowns.

But the region faces pipeline bottlenecks in the years to come, a problem only made worse by the decision by Dominion Energy and Duke Energy to abandon plans to build the major pipeline to serve fast-growing markets. Analysts at RS Energy Group and Gelber & Associates see potential production constraints in Appalachia in 2022. Gas output in the region can grow by about 12% from current levels before maxing out pipeline capacity, said Matthew Lewis, a senior director at East Daley Capital.

Lewis said a bottleneck could develop sooner if drillers ramp up production to make up for the loss of so-called associated gas, which comes as byproduct from oil wells in crude-rich basins like the Permian of West Texas and New Mexico. That could be bad news for Marcellus gas producers. Lewis said full pipelines could deepen the discount in 2021 for gas at the Dominion hub in Appalachia to as much as 80 cents per million Btu versus the U.S. benchmark, compared with current discount of about 45 cents.

Environmental, social issues led to decision to sell gas line business

(S&P Global Platts; July 10) - Dominion Energy pointed to the growing importance of environmental, social and governance (ESG) practices as one of the "key considerations" in weighing the sale of its midstream gas assets and narrowing its focus on cleaner-energy resources. Dominion announced the sale of its gas transmission and storage business to Berkshire Hathaway Energy on July 5 in a deal with an enterprise value of about $9.7 billion, including the assumption of $5.7 billion of debt.

"In reviewing this transaction, in the context of our long-term strategic direction, we weighed several key considerations, including the value to our industry-leading ESG-focused strategy," Dominion CEO Thomas Farrell II said on a July 6 call with investors. "This sale does highlight the growing pressure on utilities to decarbonize, particularly in a blue state like Virginia and with President [Donald] Trump trailing Joe Biden in the polls by double digits," Height Securities analyst Josh Price wrote in a July 6 report.

The move came on the same day that Dominion and Duke Energy announced the cancellation of the 604-mile, $8 billion Atlantic Coast gas pipeline based on ongoing delays from legal and regulatory challenges as well as increasing cost uncertainty. An analysis by S&P Global Market Intelligence shows that at least 40% of Dominion's 2018 methane emissions came from its gas transmission, processing and storage segments.

Japanese buyer expects LNG losses to total $90 million

(Reuters; July 9) – Due to slumping prices, Japan's JERA, the world's biggest buyer of liquefied natural gas, booked tens of billions of yen in one-off losses on its supplies in the year ended March 31, President Satoshi Onoda said July 9. The losses highlight a problem for Japanese utilities, which have contracts to buy large volumes of LNG linked to oil prices, while spot-market prices for the fuel are barely off record lows touched this year due to oversupply and lower demand because of the coronavirus pandemic.

JERA's losses include more than 10 billion yen ($90 million) from the resale of LNG cargoes the past financial year and the current one, as well as expected further losses in the next few years on supplies it is committed to take under term contracts. JERA declined to give any further breakdown of the losses. JERA became a major electricity generator in 2019 with the formal takeover of power stations owned by its two shareholders, Tokyo Electric and Chubu Electric.

"The coronavirus pandemic reduced electricity demand by 12% in April and May from what we had anticipated earlier," Onoda told a news conference. To cope with falling fuel demand from the weaker electricity sales, JERA has been taking measures to cushion LNG losses. "We have made adjustments, including changing shipping schedules and reselling supplies to third parties, so that our LNG inventories would not overflow until autumn," said JERA Director Hisahide Okuda.

Japan will tighten rules for investment in overseas coal plants

(Agence France-Presse; July 9) - Japan said July 9 it would tighten rules for investment in foreign coal-fired power stations on environmental grounds, but stopped short of ending government funding for projects. The move comes with the world's third-largest economy under fire for financing projects to build coal plants at home and abroad — notably in Southeast Asia. Economy, Trade and Industry Minister Hiroshi Kajiyama told reporters the government "has decided to tighten" the rules for supporting investment.

Countries seeking investment in coal-fired power plants would be required to change their "behavior" toward decarbonization, Kajiyama said, but added that the new policy was not about cutting back funding. "There are developing nations in the world that can only choose coal as an energy source," he said. The government currently provides funding to Japanese companies if their projects meet certain criteria — such as when a foreign country has no options but to choose coal due to economic reasons.

The Global Energy Monitor watchdog said last year that Japan accounted for over US$4.8 billion in financing for coal power plants abroad — particularly in Indonesia, Vietnam, and Bangladesh. Kimiko Hirata, international director of the environmental NGO Kiko Network, said the new investment decision was a "major decision," adding, “the coal-fired power stations were the pillar of infrastructure exports for Japan.” Greenpeace criticized the decision as falling short, saying it showed "no clear policy".

China’s independent refiners start to cut back production

(Bloomberg; July 9) - China’s independent oil refiners — which ramped up fuel production rapidly last quarter as the economy recovered from the coronavirus — are now set to wind down activity amid weakening margins. The so-called teapots, which account for around 25% of China’s crude processing capacity, will cut operating rates this quarter from record highs, according to almost a dozen traders and analysts.

Swollen fuel stockpiles and rising oil costs are weighing on margins, while a backlog of earlier imports that’s built up due to port congestion is slowing their purchasing. The refiners, mainly based in Shandong province, were among the first to raise run rates in late February as a rapid recovery in Chinese fuel demand and a plunge in oil prices created a processing sweet spot.

China has been one of the few demand bright spots for global crude purchases over the past few months, so less buying from the teapots may make it harder for oil to keep rallying. However, the impact will likely be cushioned by China’s state-owned refiners raising their run rates following maintenance.

BP signs deal to deliver LNG and regasify it in China

(Natural Gas Intelligence; July 9) - BP has signed a first-of-its-kind deal with one of China's largest privately owned energy companies to supply LNG and regasify it at an import terminal. Under the supply agreement, BP would provide 300,000 tonnes of LNG per year to ENN Group for two years beginning Jan. 1, 2021. The LNG would be received and regasified at an LNG receiving terminal in Southern China's Guangdong Province where BP holds regasification capacity.

BP's Dev Sanyal, executive vice president of gas and low-carbon energy, said the deal marks the first time an international energy company would regasify LNG through a Chinese terminal and also directly supply gas to customers by pipeline. "Our strategy is to integrate energy value chains, and with this transaction we have created an innovative model that integrates upstream gas resources, transportation and trading, into downstream markets in China," Sanyal said.

LNG would arrive at Guangdong Dapeng LNG terminal in the coastal province. BP has a 30% stake in the terminal. ENN has upstream, midstream and downstream operations. It operates more than 200 city gas projects and provides gas services to more than 20 million households and 149,000 industrial and commercial operations.

LNG supplier hauls 18,000-gallon load to Inuvik, Northwest Territories

(100.1 Radio; Fort St. John, BC; July 7) - Cryopeak LNG Solutions completed its largest ever delivery of liquefied natural gas by truck in Canada's Northwest Territories. The 18,000-gallon shipment, about 1.5 million cubic feet of gas, was delivered from Cryopeak's depot in Fort Nelson, British Columbia, to the power generation facility, owned by the Northwest Territories Power Corp., in Inuvik, where gas is the primary fuel for the community. Cryopeak has delivered LNG to Inuvik for three years. The haul is more than 1,300 highway miles.

Cryopeak started running what it calls its "Super B-train" twin-tanker trailer earlier this year. The company primarily focuses its fuel delivery efforts on mining and industrial heating industries and support of power generation in remote communities. The company is building an LNG production plant in Fort Nelson, the center of a gas-producing region, that will be capable of supplying 90,000 gallons of LNG per day.