Oil and Gas News Briefs
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Developers give up on $8 billion Eastern Seaboard gas pipeline

(The Wall Street Journal; July 5) - Developers of the Atlantic Coast Pipeline are giving up as companies continue to meet growing environmental opposition to new pipelines. Duke Energy and Dominion Energy said July 5 that they are abandoning the proposed $8 billion pipeline — planned to carry gas 600 miles through West Virginia, Virginia, and North Carolina and underneath the Appalachian Trail — citing continued regulatory delays and uncertainty, even after a favorable U.S. Supreme Court ruling last month.

"This announcement reflects the increasing legal uncertainty that overhangs large-scale energy and industrial infrastructure development in the U.S.," the companies said in a joint statement. Developers have been trying to expand U.S. pipelines for more than a decade to take advantage of the bounty of oil and gas unlocked by the fracking boom. Dominion and Duke had first proposed building the Atlantic line in 2014. It repeatedly faced legal challenges from environmentalists, Native American groups, and others.

The companies scored a big victory last month when the U.S. Supreme Court ruled it could lay pipe under the Appalachian Trail. The court overturned a lower-court ruling that found the U.S. Forest Service didn't have the authority to grant a special-use permit for development of that segment. However, Duke and Dominion said that the ruling wasn't enough to mitigate an "unacceptable layer of uncertainty and anticipated delays."

Dominion, meanwhile, said it was selling the rest of its gas pipeline and storage network to Warren Buffett's Berkshire Hathaway for $9.7 billion, which includes taking over Dominion's outstanding debt. The deal includes a 25% stake in the Cove Point liquefied natural gas export facility in Maryland, one of six operating LNG terminals in the U.S.

Dakota Access line tries to block expansion shippers from canceling

(Reuters; July 1) - U.S. pipeline company Energy Transfer has taken the rare step of invoking force majeure — normally used in times of war or natural disaster — to prevent oil firms from walking away from a proposed expansion of the controversial Dakota Access pipeline, according to sources familiar with the matter. Energy Transfer wants to nearly double the capacity of the line, though some companies that signed up say it's no longer necessary due to the sharp drop in U.S. output after the coronavirus pandemic.

Output in North Dakota — one of the costliest spots in the U.S. to produce crude — has fallen by about a third from last year, more than most other oil-producing states. Dakota Access is the largest line running out of the Bakken Shale with capacity to ship 570,000 barrels per day to its endpoint in Illinois. Users say an expansion to 1.1 million barrels is unlikely to be filled because the state's production is not expected to rebound soon.

"Honestly, DAPL is not needed. … Would I like to get out? Yes," said one customer who committed to space on the expanded line, speaking on condition of anonymity. Energy Transfer, however, has invoked force majeure because it could not get its permits by a certain date, according to sources. That buys the company more time to get regulatory approvals and prevents customers from walking away from shipping commitments.

Pipelines are generally built after companies find customers to commit to shipping oil. That helps builders line up financing. Contracts to use future pipeline space usually allow customers to walk away from those agreements when substantial delays occur.

Canadian Supreme Court denies appeal against oil pipeline

(The Canadian Press; July 2) - The Supreme Court of Canada will not hear a new appeal from British Columbia First Nations over the Trans Mountain pipeline expansion. The court on July 2 dismissed the appeal from the Squamish Nation, Tsleil-Waututh Nation, Tselxweyeqw Tribes and Coldwater Indian Band, effectively ending the years-long legal battle over the project. As is customary, the court did not explain its decision.

The Trans Mountain project to almost triple the existing oil line's capacity from Alberta to the British Columbia coast was approved in 2016, but stopped by the Federal Court of Appeal two years later after First Nations and environmental groups successfully argued the approval process was flawed. Ottawa approved the project a second time in June 2019 after undergoing additional consultation with affected communities, but the bands still felt the government did not fulfil its duty to consult and again appealed the decision.

The Federal Court of Appeal ruled in February the approval would stand, saying the government had made a genuine effort to accommodate concerns. But the First Nations disagreed and appealed to the Supreme Court. The bands are concerned about the line's impacts on drinking water and marine life. The July 2 decision looks to be the end of the road for legal arguments aimed at stopping construction on the pipeline.

The original developer, discouraged at resolving the challenges, sold the existing line and expansion project to the Canadian government for C$4.4 billion in 2018. Work is underway and the government plans to sell the operation back to the private sector.

Citigroup doubts demand for refined products will return to 2019 level

(Bloomberg; July 2) - Demand growth for refined oil products will never return to the levels it reached before the coronavirus outbreak, Citigroup said. As the global economy restarts, fewer people will fly and use their cars, analysts including Ed Morse wrote. With meetings going virtual and business no longer needing to move employees around the world in the same way as before, there will be powerful forces pushing a transition away from oil, the analysts wrote in a report.

At its peak, the virus wiped out as much as 30% of total oil demand and the market is still recovering. Citigroup analysts said oil is more likely to be at $45 than $60 a barrel in the long-term. “Oil product demand growth will falter significantly, change its contours and never return to pre-COVID-19 rates of growth,” they said. With its more pessimistic take on demand, Citi also cast a warning to those hoping for a return of $100 crude.

Some in the market have been gearing up for a return to higher prices, the analysts said, driven by capital spending reductions from major energy companies on new developments and geopolitical risks in some of the world’s major producing nations. But with curtailed production starting to return as oil moves over $40 a barrel, longer-term supply costs falling in recent years and plenty of supply already offline with political risks, triple-digit crude “has far more fantasy than reality at its heart,” Citigroup said.

Goldman Sachs expects oil demand to recover by 2022

(CNBC; July 2) - Analysts at Goldman Sachs expect global oil demand to return to pre-pandemic levels by 2022, citing a pickup in commuting, a shift to private transportation and higher infrastructure spending. In a research note published July 2, analysts at the U.S. investment bank estimated global oil demand would decline by 8% in 2020, rebound by 6% in 2021 and “fully recover” to pre-coronavirus levels by 2022.

Gasoline is thought to stage the fastest demand recovery among oil products as a result of a pickup in broader commuting activity, a shift from public to private transportation for commuting, and a higher use of cars to substitute air travel for domestic tourism — particularly in the U.S., Europe, and China. Diesel demand is forecast to recover to 2019 levels by 2021, boosted by government-led spending on infrastructure projects.

However, Goldman Sachs warned, jet fuel demand had been the “biggest loser” from the coronavirus crisis with consumer confidence in flying set to stay low in the absence of a vaccine and consumer behavior potentially set to change long term. Consequently, the U.S. bank does not expect jet fuel demand to return to pre-COVID-19 levels at least before 2023. The International Energy Agency said last month that it expected the fall in oil demand this year to be the largest in history with demand in the second quarter down almost 18 million barrels per day when compared to the same period last year.

Lower oil demand could hit African nations hard

(Reuters; July 2) - As the COVID-19 pandemic bashes global demand for oil, many African nations dependent on exporting fossil fuels are “hemorrhaging” cash, African energy experts warned this week. The crisis — coming as more investors shun carbon-heavy businesses — is a taste of what may happen if Africa’s rich oil and gas reserves become “stranded assets” as the world shifts to clean energy to meet climate goals.

Fatima Denton, director of the U.N. University Institute for Natural Resources in Africa, said such a situation had always been “talked about as a hypothetical scenario … but it’s fair to say it’s what’s happening now.” Hard-hit nations could respond to the threat in two ways, African experts said: Move it up a gear on renewable power in a bid to meet development and climate-change goals, or pump fossil fuels faster while they still can.

“It’s time to optimize our resources,” said Senyo Hosi, of the Ghana Chamber of Bulk Oil Distributors. “If we don’t utilize (fossil fuels) in time, we’ll make fools of ourselves and miss a major opportunity.” Cutting back on fossil fuels to curb global warming is the job of rich countries that produce most of the emissions — not African nations responsible for only a tiny share, said James Murombedzi of the African Climate Policy Centre.

Many African oil-exporting countries have seen their oil revenues halved since the start of the pandemic, said Antonio Pedro, director for Central Africa at the U.N. Economic Commission for Africa. Projects are being postponed or cancelled. Natural resources — including oil and gas — account for 25% of gross domestic product in Africa, he said.

Peak oil used to refer to supply, now it refers to peak demand

(Agence-France Presse; July 4) - Although oil prices have rebounded from coronavirus-crisis lows, oil executives and experts are starting to ask if the industry has crossed the Rubicon of peak demand. The plunge in prices during the first wave of coronavirus lockdowns was due to the drop in global demand as planes were parked on tarmacs and cars in garages. The International Energy Agency forecast that average daily oil demand will drop by eight million barrels per day this year, down 8% from last year.

While the agency expects an unprecedented rebound of 5.7 million barrels per day next year, it still forecasts overall demand will be lower than in 2019 owing to ongoing uncertainty in the airline sector. Some are questioning whether demand will ever get back to 2019 levels. "Could it be peak oil? Possibly. I would not write that off," BP's new chief executive Bernard Looney said in May. The concept of peak oil has long generated speculation. Mostly, it has been focused on peak production.

But in recent months, the concept of peak demand has come into vogue with the coronavirus landing an uppercut into fuel demand for the transportation sector followed by a knock-out punch from the transition to cleaner fuels. Michael Bradshaw, professor at the U.K.'s Warwick Business School, said environmental groups are already lobbying the need for a Green New Deal for the recovery. "If they are successful, demand for oil might never return to the peak we saw prior to COVID-19," he said to journalists.

Uneven demand for fuels, low margins threaten oil-price recovery

(Bloomberg; July 4) - The world's refining industry today is in pain like never before as it turns crude into the products that people actually use, such as gasoline, diesel, jet fuel, and petrochemicals for plastics. "Refining margins are absolutely catastrophic," Patrick Pouyanne, the head of Europe's top oil refining group Total, told investors last month, echoing a widely held view among executives, traders and analysts.

"We believe we are entering into an 'age of consolidation' for the refining industry," said Nikhil Bhandari, refining analyst at Goldman Sachs. A refinery's economics are ultimately simple: It thrives on the price difference between crude oil and fuels like gasoline, earning a profit that's known in the industry as a "cracking" margin. Though oil prices have recovered to around $40 per barrel, the demand for gasoline and other refined products is still in the doldrums, holding down prices and hurting refiners.

Some refineries are actually losing money. With demand in the U.S. showing signs of declining again as COVID-19 cases flare up in top gasoline-consuming regions including Texas, Florida, and California, the margins are at risk of further deterioration in America, which accounts for nearly two in each ten barrels of oil refined worldwide.

And while gasoline and diesel consumption has surged back, in some cases to 90% of normal, jet fuel demand remains depressed. Refiners are trying to resolve the problem by blending much of their jet-fuel output into, effectively, diesel. But that is creating too much of the middle distillates like diesel and heating oil. If refiners don't make money, they buy less crude, potentially capping the oil-price recovery of the past month.

Saudis raise prices for August as recovery continues

(Bloomberg; July 5) - Saudi Arabia raised pricing for August oil cargoes to Asia, the U.S. and northern Europe amid signs that energy demand is recovering from its coronavirus-triggered collapse. The world's biggest crude exporter is increasing rates as it pushes other major producers to keep cutting supply to re-balance the market. State producer Saudi Aramco lifted the official selling price for its flagship Arab Light crude to buyers in Asia, its biggest market, for a third consecutive month, though by less than expected.

Aramco also raised pricing to the U.S., where it's reining in shipments, for a fourth month. "The increase in prices reflects the overall recovery in oil markets," said Carole Nakhle, CEO of London-based consultant Crystol Energy. "Demand growth remains uneven and may even be subject to temporary reversals, but it is unlikely to fall off a cliff because lockdowns, if re-introduced, are likely to be more localized."

Arab Light crude to Asia rose to $1.20 a barrel above the Middle East benchmark, compared with a 20-cent premium for July, Saudi Aramco said in a statement. Aramco raised U.S. pricing 20 cents to 40 cents a barrel. Production curbs by OPEC+ nations, along with curtailments by North American producers, have helped boost prices with benchmark West Texas Intermediate holding around $40 the past few trading days. In addition, reduced Saudi exports to the U.S. — in particular to the West Coast — is part of the reason why Alaska North Slope crude, which supplies Washington and California refineries, is back to its more traditional spot at $2 or $3 per barrel above WTI.

Report questions financial wisdom of Japan's LNG investments

(Reuters; July 2) - Japan's banks and public agencies have funneled nearly $25 billion into liquefied natural gas projects since 2017, but the investments may sour as prices plummet from the COVID-19 pandemic and as climate-change risks rise, a new study shows. Spurred on by the government to boost energy security since the 2011 Fukushima disaster shut down the country's nuclear reactors, Japan's growing investment in LNG comes as more evidence emerges of the climate impacts from gas.

Backing high-risk LNG projects that require decades to return investments looks questionable, with some facing the risk of delay or being scrapped, the study by Global Energy Monitor (GEM) showed. "The original rationale for the program — enhanced energy security — appears now to be fundamentally flawed, as the simultaneous shocks of the COVID-19 pandemic and the 2020 oil-price crash reveal the vulnerability of global LNG supply chains," analysts Greig Aitken and Ted Nace wrote in the report.

Japan is the world's biggest importer of LNG, with gas producing about 40% of its electricity, though purchases are in long-term decline. Competition from renewables and energy storage, which are growing cheaper, may also hit LNG investments, the report said. GEM is a network of researchers focusing on fossil fuels and alternatives, the group said. Japanese banks, public agencies, and other entities have provided $23.4 billion of loans and support in 10 countries for more than 20 LNG terminals, tankers, and gas lines, GEM said, with 14 more terminals in 11 countries in line for financial support.

Big Oil has to find its place in a low-carbon future

(The Wall Street Journal commentary; July 2) - Big oil and gas producers are charting different courses toward a lower-carbon future, all of them fraught with risk. The world used to worry about "peak oil," or running out of the stuff. Not any more: Supply has outstripped demand and it looks likely to stay that way. Shell and BP, two of the world's five so-called supermajors, have significantly lowered their expected commodity prices in recent weeks, forcing them to write off about $39 billion worth of assets.

Energy demand will still grow with the global economy, but fossil fuels will be used less as economies decarbonize to slow climate change. The industry now talks of peak oil demand leaving "stranded" reserves uneconomic to exploit. The COVID-19 crisis has only made such talk louder. Amid lower energy demand, the changes have added to lenders' and investors' concerns that new exploration spending might ever pay back.

Companies have a lot of oil and gas reserves: The problem is that some plan to spend billions to find more, despite the growing risk that investments will have to be written down. European rivals, under greater social pressure to help in the fight against climate change, eventually plan to become low-carbon energy producers. Both approaches — finding more oil and turning to low-carbon energy — raise hard questions for investors.

The energy industry will look very different in future as renewable power sources replace carbon fuels. The transition has built up unstoppable momentum, confronting investors with opportunities and challenges alike in sectors as wide-ranging as oil and gas, utilities, and industrial technology. However, the supermajors decide to tackle the energy transition, they risk wasting cash on investments that might not bear fruit.

Canadian oil sands cargo heading by tanker to Nova Scotia refinery

(Financial Post; Canada; July 2) - Cenovus Energy is the first Alberta oil sands company to announce its shipping crude through the Panama Canal to Irving Oil's refinery in Saint John, New Brunswick, as the industry explores circuitous routes to reach new markets. The Calgary-based producer announced July 1 it had loaded a batch of crude aboard a tanker at the Trans Mountain terminal in Burnaby, British Columbia, for the 7,400-mile journey to Canada's East Coast through the Panama Canal.

"It's encouraging to see more Canadian-produced oil refined at a Canadian refinery. It's a one-off shipment for now, but we believe this Canadian success story has the potential over time to create significant value for both companies and the entire country," said Keith Chiasson, Cenovus executive vice president for downstream. The Cenovus shipment is part of Irving's effort to pursue opportunities that expand the market for the country's resources, Irving spokesperson Candice MacLean said.

In May, Transport Canada approved Irving's application to use foreign ships to deliver Canadian oil to its refinery in New Brunswick, a move that surprised many analysts in the oil industry as it suggested the circuitous route through the Panama Canal was economically feasible. Irving plans to source Canadian oil from the Burnaby terminal and from export terminals along the U.S. Gulf Coast that could load Alberta oil delivered by pipeline through the U.S. mid-Continent.

South Korean shipyards will build carriers for Mozambique LNG

(The Wall Street Journal; July 2) - Some of the world's biggest shipowners are lining up to transport liquefied natural gas from Mozambique as French energy giant Total moves ahead with its $23 billion LNG project. Sources said the project will use at least 16 new LNG carriers worth about $2.9 billion, backed by multi-year charters. Japanese carriers Nippon Yusen Kaisha, Mitsui OSK Lines and Kawasaki Kisen Kaisha are set to sign contracts as soon as this month to add four vessels each. Maran Gas Maritime, owned by Greek shipping magnate John Angelicoussis, will build another four.

The vessels, costing an average of $190 million each, are to be built by South Korea's Hyundai Heavy Industries and Samsung Heavy Industries. The project, at an initial capacity of 12.9 million tonnes per year, provides a boost to a once-booming LNG market that has foundered under sagging global demand as lockdowns triggered by the coronavirus response have hurt industrial activity. The project has been in the works for years under different owners. Total now controls a 26.5% slice, with the rest held by partners from Mozambique, Japan, Thailand, and India. Start-up is planned for 2024.

Other projects, including Sempra Energy's Port Arthur, Texas, LNG export terminal, have been pushed back. Postponement of the Texas project delayed a decision by Middle East energy giant Saudi Aramco on potential contracts for a dozen LNG carriers. Under a 20-year deal signed last year, Aramco would buy a 25% stake in the Sempra facility and move 5 million tons of natural gas annually.

Angola resists OPEC pressure to comply with reduced output

(Reuters; July 2) - Angola is resisting pressure by OPEC for a steeper cut to its oil output to fully comply with the group's record supply curbs, OPEC and industry sources said. The Organization of the Petroleum Exporting Countries and allies led by Russia, known as OPEC+, have been cutting oil output since May by a record 9.7 million barrels per day after the coronavirus crisis destroyed a third of global demand.

After July, the cuts are due to taper to 7.7 million barrels per day until December. Saudi Arabia, which chairs a panel that monitors adherence with the cuts, has been heading efforts to press laggards such as Iraq, Kazakhstan, Nigeria, and Angola to improve compliance with the reductions and compensate for May overproduction in July-September. "Angola is saying they would not compensate for its overproduction during July-September like the rest of the countries but would be able to compensate only in October-December," said one OPEC source. "We are still trying to convince them."

Another OPEC source said that Nigeria and Algeria are now reaching out to Angola to convince it to follow the agreement. “The whole (OPEC+) group is adding pressure on Angola and others who are not complying to adhere to what they have agreed to,” said the source. In May, Angola pumped 1.28 million barrels per day, according to OPEC data, or 100,000 more than its target. It trimmed production to 1.24 million barrels per day in June, based on a Reuters survey, 60,000 above its target.

Canadian oil companies face $6 billion in maturing debt

(Reuters; July 5) - The Canadian oil and gas industry has borrowed heavily to survive a series of catastrophes and is facing C$6 billion in refinancing in the next six months, the Bank of Canada said. The maturing debts are the most on record for the fourth year in a row and a more than 40% increase over 2019, according to Refinitiv. They are a threat for some companies during the worst industry crisis in decades, while others with stronger credit ratings may buy time in exchange for paying higher interest rates.

Companies have two main options as their unaffordable debts mature: Swap debt for equity or convince noteholders to extend maturity, said Kevin Fougere, in the Calgary law office of the firm Torys. The pace of restructurings and bankruptcies has been slow as banks have little desire to own assets, and as rebounding oil prices offer hope, said Alan Ross, Calgary regional managing partner with law firm Borden Ladner Gervais.

When oil prices crashed in 2014, Canada’s oil patch cut costs and borrowed to survive. Then this year, the coronavirus pandemic hammered oil demand, dealing the biggest blow in decades. Too many producers gorged on cheap debt to fund operations as share prices lagged and investors soured on new equity issues, said Raymond James analyst Jeremy McCrea. Smaller producers with scant ability to sell assets or raise new debt or equity face a “refinancing wall,” said Victor Vallance, senior vice-president, energy, at credit rater DBRS Morningstar. “You’re going to see more consolidation.”

Nigeria’s low costs help it maintain LNG exports amid weak prices

(Bloomberg; July 2) - Nigeria plans to keep its liquefied natural supply at current levels despite prices near record lows, the opposite of what exporters in the U.S. and Australia are doing. State-owned Nigeria LNG Ltd. plans to continue production levels and may even boost exports in August and September, depending on demand, according to a person with knowledge of the strategy. Nigeria’s low production costs certainly help. The country exported over 1.8 million tonnes last month, higher than last year’s monthly average of 1.7 million, according to ship-tracking data compiled by Bloomberg.

Most of the world’s suppliers curbed deliveries in June as measures to contain the coronavirus slashed gas consumption, with global exports down 6.3% from the previous year. Only a handful of exporting countries, including Qatar and Algeria, have been able to boost output. Some of Nigeria’s buyers have exercised clauses in their long-term contracts that allow them to take fewer shipments than originally agreed. Nigeria has been able to sell that excess supply into the spot market, but usually at a discount.

More than half of Nigeria’s exports in May ended up in Asia, compared with less than a third last year, according to ship-tracking data. Production costs at Nigeria’s Bonny Island facility are so low that it can still turn a profit amid weak spot prices, said the person who asked not to be identified because the plans are private. The facility has among the lowest costs in the world, according to data from Sanford C. Bernstein & Co.

Malaysia reduces LNG exports as spot prices below break-even

(S&P Global Platts; July 2) - Malaysia, the world's fifth-largest LNG exporter, has cut its LNG exports for the second quarter by nearly 27% from the previous year, in a move that has helped tighten the Asian LNG market and prevented a total collapse of spot prices in the region. The fall in exports is in line with Petronas' strategy of optimizing supply in a record-low price environment, allowing the national oil company to skirt losses and defer exports to 2021 when LNG prices are likely to be more favorable.

Malaysia's LNG exports began posting a notable drop in April, and over the April-June period averaged around 1.58 million tonnes per month, which was about 27% lower than a year ago and about 30% lower than monthly exports in the first quarter. That is a reduction of about 10 or 12 cargoes per month. Petronas has a higher exposure to the spot market than its peers, with roughly 50% of its portfolio tied to long-term contracts, partly because many contracts underpinning its flagship Bintulu LNG project expired in recent years, Jeff Moore, Asia LNG manager at S&P Global Platts Analytics, said.

As one of the more "spot-exposed" producers, Moore said Malaysia has reacted by turning down production and dialing back sales on the spot market where cargoes are becoming increasingly homeless. "I heard from [Petronas] that the current Japan-Korea Marker (spot) price is lower than their break-even point, so unless the price goes up again, I don't think they'll ramp up production," a South Korean end-user said.

Michigan judge allows Enbridge to restart oil line under Great Lakes

(The Associated Press; July 2) - A Michigan judge on July 1 allowed Enbridge to resume pumping oil through a Midwestern pipeline, nearly a week after shutting it down because of damage to a structure that anchors a section of the line running through a Great Lakes channel. Enbridge’s Line 5 moves crude oil and liquids used in propane from Superior, Wisconsin, to Sarnia, Ontario, passing through parts of Michigan’s upper and lower peninsulas. A four-mile-long segment divides into two pipes that cross the bottom of the Straits of Mackinac, which connects lakes Huron and Michigan.

Circuit Judge James Jamo granted a request from Michigan to close the line June 25 after Enbridge reported that an inspection had found damage to an anchor supporting the underwater section's eastern line. The pipe itself was unharmed, the company said. During a hearing June 30, Enbridge attorneys urged the judge to lift the restriction for the underwater western line so oil could resume flowing. The company said the interruption threatens supplies for refineries that receive Line 5′s oil in Michigan, Ohio and Pennsylvania, as well as Ontario and Quebec.

The state argued for keeping the 645-mile-long line shut down until Enbridge provides additional information that would ensure it is being operated in a "reasonably prudent" manner. In his amended order July 1, Jamo said the company could restart the western line to conduct a safety test and could keep it running "subject to the results of the (test) and further order of this court." The east line, meanwhile, will remain out of operation until federal regulators have completed an investigation of the damaged support.