Oil and Gas News Briefs
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Pennsylvania brings criminal charges against shale driller

(Pittsburgh Post-Gazette; June 15) - Pennsylvania's Office of Attorney General is charging Cabot Oil and Gas for environmental crimes related to one of the most notorious cases of water contamination from Marcellus Shale drilling in the state. Attorney General Josh Shapiro said June 15 the Texas-based company will face charges for methane pollution that seeped from poorly constructed gas wells into the water supply in Dimock, a rural township in northeastern Pennsylvania.

The contamination in Dimock has been the subject of investigations by state and federal environmental and health agencies, civil lawsuits, the documentary "Gasland," several books and advocacy by celebrities. The Susquehanna County township is the only place in Pennsylvania where state regulators have shut down new Marcellus Shale drilling until leaking wells are remediated and methane gas contamination in the aquifer subsides. The moratorium on drilling in the 9-square-mile box has lasted for a decade.

Cabot is charged with seven counts of prohibition against discharge of industrial wastes, seven counts of prohibition against other pollutions and one count of unlawful conduct under the Clean Streams Law. Possible penalties are $25,000 to $50,000 for each count. The charges resulted from a two-year state grand jury probe into environmental crimes committed by shale companies across the state. The company has consistently argued methane was pre-existing in the local aquifer and is unrelated to its operations.

The charges come after Range Resources, one of the largest shale drillers in the state, pleaded no contest to criminal charges of negligent oversight of two well sites last week.

Report finds history of safety issues on heavily used oil train route

(CBC; June 15) - When Melanie Loessl got a call from a friend on Feb. 6 that another oil train had crashed and burned near her community, she thought it was a joke. Not two months earlier, she'd been forced to flee after a different Canadian Pacific Railway train carrying crude oil jumped the tracks and exploded near her home, just west of the hamlet of Guernsey, Saskatchewan. Now the entire community was facing evacuation. "I was just like, 'Oh, my God. Not again,'" said Loessl, a local potash mine worker.

A CBC News investigation has uncovered years' worth of Transport Canada inspection reports documenting hundreds of safety problems along the Saskatchewan rail line, none of which prompted orders for trains to stop rolling. What's more, since the 2013 rail disaster in Lac-Mégantic, Quebec, that killed 47 people, there have been seven major derailments of oil trains in Canada. In each case investigators blamed broken track.

Experts who reviewed the documents say the government regulator, Transport Canada, is failing to properly oversee rail companies and ensure the safety of hundreds of communities along vast oil-by-rail networks. CBC News obtained five Transport Canada inspection reports from 2016 to 2020 for the CP line that stretches 114 miles from Wynyard, Saskatchewan, through Guernsey to Saskatoon, the province's most populous city. The reports detail hundreds of problems found by inspectors, including missing or defective railway ties and broken joints that connect long pieces of rail.

Jack Gibney, an official for the municipality that includes Guernsey, wonders whether CP should have foreseen the track issues, given the dramatic increase in oil shipments. "The last couple years, it's probably three times the amount of traffic we're used to. Trains a mile long," he said. "You can't expect to put that much traffic over a rail line and not do the proper upkeep to keep it safe." CP's oil loads along the line have increased sevenfold since 2017, according to Canada's Transportation Safety Board.

Global oil demand could recover in 2021, not counting jet fuel

(The Wall Street Journal; June 16) - The coronavirus pandemic will hammer global growth and oil demand this year, but supply cuts from producers and a record rebound in demand next year will help toward rebalancing the market, the International Energy Agency said. In its monthly report June 16, the IEA said that while the world's demand for crude will drop by 8.1 million barrels a day this year, demand in 2021 will rebound by a record 5.7 million barrels a day — still leaving the total below 2019 numbers.

The emergence in recent weeks of parts of the global economy from coronavirus lockdowns that did unparalleled damage to global economic growth has spurred a recovery in crude demand. China's oil demand in April was almost back at levels seen a year previously and Indian demand climbed in May. If that resurgence persists and oil-producing nations stick to their plans to constrict global oil supply, "the market will be on a more stable footing by the end of the second half [of 2020]," the IEA said in its report.

However, "we should not underestimate the enormous uncertainties" the market still faces, the agency said. The nascent recovery under way for oil and oil products has been uneven and will likely remain that way, the agency said. Stripping out jet-fuel demand, global oil demand should reach pre-crisis levels in mid-2021, IEA Executive Director Fatih Birol said. "The key issue is when people will start to fly," he said. Total oil demand might not fully recover to pre-coronavirus levels until 2023, the agency said.

A long way to go before crude demand gets back to normal

(Bloomberg analysis; June 14) - It was too good to be true. OPEC+ took a decision in record time to extend deep output cuts intended to halt a dramatic slide in prices — and members agreed to abide by them. It was perfect timing to keep oil from flooding the market, allowing time for demand to recover as economies around the world fire back up after coronavirus lockdowns. Yet oil prices aren't recovering as the bulls had hoped.

Yes, there is a rebalancing of supply and demand in the offing, but consumption hasn't picked up quite as much as OPEC+ hoped it would by now. A rally that briefly took West Texas Intermediate crude above $40 a barrel in the first week of June has fizzled out, as the euphoria of exiting lockdowns is replaced by the reality of living with this virus. Around the world, it's become clear that getting back to work and play will be halting.

It wasn't supposed to be this way. The OPEC+ output cuts were meant to start draining inventories, while the reopening of stores, factories and businesses boosted demand. Yet things seem to be going the opposite direction. The U.S. Energy Information Administration's outlook for global oil demand is becoming more pessimistic. Its latest forecast shows demand remaining 4.5% below last year's level in the fourth quarter.

The recovery in oil demand is faltering in the U.S., where deliveries from storage depots remain 20% below year-earlier levels on a four-week average basis. The pickup in gasoline demand as some people have returned to work but shunned public transport, has ground to a halt and remains down year-on-year by 20%. Jet fuel is still down by more than 60%, while the drop in distillate fuel oil demand is getting bigger, not smaller. There is still a long way to go before we get back to anything like normal.

Oil sands scales back emissions-reduction projects to save money

(Reuters; June 13) - Canadian oil sands companies have shelved nearly C$2 billion in green initiatives in a cost-cutting drive to weather the coronavirus pandemic, a reversal in commitments to reduce emissions and clean up their dirty-oil image. International oil firms left the sands in droves in recent years due to the high costs to turn a profit. Some investors and banks, meanwhile, halted financing in part to pressure the world's fourth-largest crude producer to reduce the environmental impact of oil-sands production.

This year top producers Suncor Energy, Canadian Natural Resources and Cenovus Energy have cut a combined C$1.8 billion (US$1.32 billion) in planned spending on green initiatives as losses mount due to economic lockdowns hitting oil demand. "This has strengthened our view … that our decision that we took (to block oil sands) was correct," said Jeanett Bergan, KLP's head of responsible investments. KLP, Norway's largest pension fund, exited the sands last year, while the country's $1 trillion wealth fund in May blacklisted Suncor and others for excessive greenhouse gas emissions.

The Canadian industry has the highest upstream emissions intensity among major world oil and gas producers, more than triple that of the U.S., consultancy Rystad Energy said in May. The picture in Canada contrasts with Europe, where the biggest oil and gas producers have diverted a larger share of their cash to green energy. Canada's oil firms have invested in recent years to reduce their emissions intensity. But Western Canada's overall emissions increased 14% from 2005 to 2018, as oil output doubled.

Shell, Oman will revisit decision on gas-to-liquids project

(S&P Global Platts; June 15) - Plans to build a new gas-to-liquids (GTL) project in Oman between the government and Shell have been thrown into doubt by the global economic downturn, Oil Minister Mohammed AL-Rumhy said. "We've decided to revisit the GTL with our partner Shell," Rumhy said in a June 11 interview. "We will see what is best for the project, and this work could take up to three months. So by the third or fourth quarter we will make a final investment decision of some kind on the project."

Shell didn't respond to request for comment. The oil major has been looking at building a GTL plant in Oman with a capacity of 40,000 to 45,000 barrels per day, taking its feed gas from the Mabrouk North East field that was discovered in March 2018. The field is thought to hold recoverable reserves of more than 4 trillion cubic feet and 112 million barrels of condensate, according to semi-state owned Petroleum Development Oman.

Under a memorandum of understanding signed early 2019, Shell and partner Total committed to developing the upstream block, taking working interests of 75% and 25%, respectively. The objective was to achieve an initial gas production of around 500 million cubic feet per day with the potential to reach 1 billion cubic feet per day at a later stage. As part of the agreement, Shell was to build the GTL plant and Total a liquefied natural gas bunkering service for vessels calling at Oman's Sohar port.

Iraq imposes production cuts on international partners

(Reuters; June 14) - Iraq has agreed with major oil companies operating its giant southern oil fields to cut production further in June, Iraqi officials working at the fields told Reuters on June 14. Baghdad aims to improve its compliance with its output targets under a global deal with OPEC and its allies to reduce oil supply. Iraq has agreed with Russia's Lukoil to start an additional cut of 50,000 barrels per day as of June 13 to reduce production from the West Qurna 2 field to around 275,000 barrels per day.

Lukoil cut output by 70,000 barrels per day in May in response to a request by Iraq's oil ministry, two Iraqi oil field managers told Reuters on June 13. The Iraqi oil managers, who oversee production operations, said state-run Basra Oil Co. had asked BP to cut production from the Rumaila oil field by around 140,000 barrels per day of its total production, which stands at between 1.4 million to 1.45 million barrels per day.

ExxonMobil has agreed to cut an additional 70,000 barrels per day from the West Qurna 1 field to reduce production to around 350,000 barrels in June, the two Iraqi managers said. Iraq has told OPEC it would start an urgent plan to cut its oil production gradually to fully comply with its quota after the group demanded that Baghdad and other laggards adhere to a pact on output curbs. "We will keep lowering production gradually to comply with OPEC quota," said one Iraqi oil official.

Mexico will have to pay more for oil-price hedges in 2021

(Reuters; June 14) - Mexico will have to pay more money for less coverage under its giant oil-revenue insurance policy for 2021, but will likely go ahead anyway to avoid further damaging its financial standing with investors, sources said. The finance ministry's billion-dollar oil hedge is the world's largest. It has been a pillar of the budget for more than 20 years for Mexico, which pumps about 1.7 million barrels a day of oil.

The policy ensures Mexico can sell oil at a predetermined price, guaranteeing a portion of revenues crucial for the state budget — no matter what happens in the global oil market. Many countries dependent on oil revenues face massive budget shortfalls due to collapsing prices and demand during the coronavirus pandemic, yet Mexico's insurance policy is expected to deliver a $6 billion payout this year — its largest ever.

Bankers and officials involved in the secretive deal expect a smaller hedge for next year since market volatility and lower oil prices have sharply hiked the cost of options Mexico typically uses to hedge its crude sales. Those options for 2021 are 40% more expensive than normal, several market sources said. At the same time, Mexico's cash available to finance the hedge are dwindling. Lower revenues have forced the government to plug the gap by spending more from the fund that also pays for the hedge. The hedge is designed to protect about one-fifth of Mexico's budget revenues, sources said.

Saudis cut back on July's oil sales to Asia

(Bloomberg; June 15) - Saudi Arabia reduced the amount of crude it will supply next month to seven refiners in Asia after OPEC+ agreed to extend its historic output cuts through July. The volume of contracted oil the seven buyers will receive for July was cut by 10% to 40%, according to refinery officials who asked not to be identified as the information is private. Some South Korean processors were notified of steep curbs to their requested supply after being spared reductions last month, while three refiners in Japan will get their full volumes after their flows were trimmed in June, the officials said.

OPEC+ agreed to a one-month extension of its cuts to help underpin the oil market recovery with Saudi Arabia following the pledge to prolong curbs with big price hikes to its crude. The Saudi cuts were widespread across the region from South Asia and Southeast Asia to some parts of North Asia, the officials said. For at least two Indian processors, supplies from Saudi will be 20% to 25% lower than their requests, they said. Saudi Aramco declined to comment on the supply allocations.

U.S. working oil rigs down to 199

(Bloomberg; June 13) - Explorers slashed drilling in the world's biggest shale patch for a 13th straight week as they wrangle with a global pandemic that is crimping demand for crude and leaving many strapped for cash. The number of active drilling rigs in the Permian Basin of West Texas and New Mexico fell by four to 137, just three above a record low in 2016, according to Baker Hughes data released June 12. Across the U.S., explorers idled seven more oil rigs, bringing the total to 199.

Worldwide lockdowns to prevent the spread of COVID-19 had a devastating impact on crude demand at a time when shale explorers were already struggling to generate enough free cash flow to meet their hefty debt loads. The U.S. shale patch, which ushered the global oil industry out of the last downturn that kicked off six years ago, is expected to lead spending cuts this year. Shale explorers are wiping out more than half of their budgets, according to industry consultant Rystad Energy.

FERC approves start of site work at LNG project in Louisiana

(Reuters; June 15) – The Federal Energy Regulatory Commission on June 15 approved Venture Global LNG's request to proceed with limited site preparation at the company's proposed Plaquemines LNG export plant in Louisiana. The company said on its website it plans to start early construction work on Plaquemines in mid-2020 before financial close on the project in late 2020 with the plant expected to enter service in 2023.

If Venture Global goes forward with Plaquemines this year, it could be the only U.S. LNG project to enter construction in 2020 after most other developers delayed their projects as coronavirus lockdowns cut global demand for energy and caused gas prices in Europe and Asia to drop to record lows. Venture Global officials were not immediately available for comment. Plaquemines is designed to produce up to 20 million tonnes per year of LNG. Analysts estimate the plant's first phase will cost about $8.5 billion.

In addition to Plaquemines, Venture Global also is building the Calcasieu Pass LNG export plant in Louisiana, which is expected to cost about $4.5 billion and enter service in the autumn of 2022 at 10 million tonnes annual capacity. It is also developing the Delta LNG export plant in Louisiana, proposed at 20 million tonnes. On its website, the company said it hopes to decide to build Delta LNG in the second half of 2021 with the first phase entering service in the second half of 2024.

Trucked LNG competes against pipeline gas in China

(ICIS; June 11) - China's pipeline gas imports look to fall for the rest of this year as domestic end-users switch to cheaper supplies from trucks hauling liquefied natural gas. State-owned major China National Petroleum Corp. (CNPC), the country's sole pipeline gas importer, is cutting its piped gas imports because of aggressive pricing competition from LNG truckload suppliers that hold high inventories, said Chinese sources.

Prices for truck-delivered LNG have been falling, as state-owned majors empty their import terminal storage tanks so that they can buy fresh cargoes at near-record low spot-market prices, said a source. This has led to fierce pricing competition in the Chinese gas market, where pipeline gas imports in May likely fell under 2 million tonnes, the lowest since November 2016, according to LNG Edge and preliminary customs data. This would be the third consecutive month of declines.

Chinese sources also noted that the prices for truck-delivered LNG supply from import terminals have fallen below the prices for domestic production. CNPC cannot easily cut its domestic gas production, as it has a mandate to keep gas field workers employed, said a source from a state-owned major. Cutting pipeline gas imports is the easiest choice for CNPC to manage its high storage inventories of gas.

Australian state backs controversial coal-seam gas project

(Reuters; June 11) - The Australian state of New South Wales said a controversial coal-seam gas project planned by Santos should be approved, as it would be crucial to plugging an expected shortfall in gas supply from 2024. The recommendation, following a three-year review, was handed over June 12 to the state's Independent Planning Commission, which now has 12 weeks to determine whether the A$3.6 billion (US$2.5 billion) project should go ahead.

The project could meet up to half of the state's gas needs, helping to replace the rapidly depleting Bass Strait gas source that has supplied Australia's southeastern states for 50 years. But the Narrabri project faces fierce opposition from farmers and environmental groups concerned that coal-seam fracking would damage local water supplies and a state forest 320 miles northwest of Sydney.

The state's review found that in addition to providing essential gas supplies, the project would keep a lid on gas prices, support the development of gas-fired power stations to back up wind and solar power, and create jobs. The state recommended imposing strict conditions to ensure the project does not deplete or contaminate water supplies and protects the Pilliga State Forest and the health and safety of the local community.

China moving to set up carbon market for power companies

(Bloomberg; June 11) - China's state-owned power giants have been asked to prepare reports on historical emissions that officials will use to set up the world's largest carbon market, according to people familiar with the request. The China Electricity Council has asked firms for submissions by July, said the people, who asked not to be identified because the information isn't public. The council will use the data to help determine the number of carbon allowances power generators can vie for when the market launches.

The Ministry of Ecology and Environment, which will oversee the market, published a draft allocation plan last year after consulting with the council. It has since decided that the data was not accurate and has asked for it to be redone with direct input from the utilities, according to the people. Officials at the ministry and at the council, an industry group representing power generators, did not return calls seeking comment.

China is aiming to set up a national carbon market this year for the power sector, which accounts for half of the fossil fuel-derived emissions in China and 14% of the world's emissions. The world's top energy consumer is tapping financial market mechanisms to help cut greenhouse gases, a move expected to create the world's biggest forum for trading carbon emissions. The program will force utilities to buy pollution permits to help counter the impact of rising electricity usage on efforts to contain global warming.

Europe's price tag for carbon-neutrality by 2050 could be $735 billion

(Bloomberg; June 14) - Europe's oil refining lobby has taken a shot at estimating what it might cost to achieve the EU's dream of carbon-neutrality by 2050. It will cost between 400 billion and 650 billion euros (up to $735 billion) to produce the low-carbon liquids needed to help stop oil-derived road fuels in Europe by 2050, said a study released June 14 by Fuels Europe, whose members include all the continent's largest refiners.

That figure also includes a 50% reduction in carbon dioxide emissions from the aviation and shipping industries. While several oil companies have already begun the task of evaluating how they might lower their own carbon footprints from operations, the study touches on a much more profound question: How can an entire infrastructure be transformed, and what alternative fuels might be developed, to meet the continent's needs for decades to come. “There’s no business-as-usual,” said John Cooper, director general of Fuels Europe. “Essentially, there is no petroleum refined in 2050,” he said.

To achieve the target, the study proposed the continued use of non-petroleum derived liquids, such as biofuels and synthetic hydrocarbons, to be used in conjunction with electrification and hydrogen-based technologies. The path to greater carbon neutrality set out by Fuels Europe would require significant investment by the industry at a time when profits are being squeezed as a result of the demand hit caused by the coronavirus. It will also need action by governments on issues such as taxation to encourage use of the new generation of clean fuels, which will cost more to produce.

Global oversupply hits Australia’s $35 billion LNG export industry

(Sydney Morning Herald; June 15) - Australia's lucrative exports of liquefied natural gas are being hit by a global supply glut teaming up with the coronavirus crisis that is destroying demand. Dozens of cargoes are either anchored offshore or idling at sea as Asian buyers delay deliveries. While oil prices begin showing signs of recovering from historic lows, traders and analysts say the worst may be yet to come for the LNG industry as demand collapses in key Asian markets and storage facilities near capacity.

Unlike oil producers, many liquefied natural gas exporters have yet to curtail output, meaning the fallout could be longer and more severe than the oil crash. "The global gas market is still extraordinarily oversupplied," said Graeme Bethune, of Australian consultancy EnergyQuest. "That pressure is now intensifying." The market for gas, used for power generation and a feedstock for manufacturing, was already in an oversupply as a warmer winter added to the glut caused by the start-up of new supply projects.

But the coronavirus crisis has slashed demand even further and clouded the outlook for Australia's A$50 billion a year (US$35 billion) LNG export industry at a critical time as the economy awakens from lockdowns. It is estimated that 41 cargoes of Australian LNG were either anchored offshore, sailing around in circles or travelling at slower speeds while they await destination instructions. In a sign of the oversupply, one cargo loaded last month at Chevron's LNG operation off the Western Australia coast that was initially destined for Asia was instead sent to Mexico after sitting idle for more than three weeks.