Oil and Gas News Briefs
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KBR decides to turn away from most LNG construction work

(Reuters; June 22) – Engineering and construction firm KBR will exit most of its liquefied natural gas construction and other energy projects, it told investors and employees, as customers pull back on energy investments. The company will refocus on government contracts and technology businesses, CEO Stuart Bradie wrote to employees on June 22. KBR will "no longer engage in lump-sum, blue-collar construction services," saying the COVID-19 pandemic accelerated the move to leave fixed-contract energy projects.

Houston-headquartered KBR held contracts for engineering and construction services for several LNG projects, including an expansion at Freeport LNG in Texas, Pieridae Energy's proposed Goldboro LNG facility in Nova Scotia, Canada, and Glenfarne's proposed Magnolia LNG project in Louisiana. Freeport LNG has delayed its project to 2021 and planned to seek new bids for construction, spokeswoman Heather Browne said. Pieridae and Glenfarne did not respond to requests for comment.

KBR declined to discuss potential impairments on its current LNG projects, but pointed to an investor webcast last week that said it expected the energy business to be "marginally profitable" this year. It will disclose more details with second-quarter results next month, an executive said in the webcast. About 85% of the company's forecast earnings for 2020 are expected to derive from government business, up from about 11% in 2015, Bradie told investors during the call. One of the founding companies that comprise KBR started back in 1901 as a pipe fabrication business in New York.

Deloitte report says a third of U.S. shale producers in trouble at $35

(Bloomberg; June 22) - Almost a third of U.S. shale producers are technically insolvent with crude at $35 a barrel, according to Deloitte, a multinational financial advisory firm, highlighting the industry's acute financial strain even as oil prices rebound from a record low earlier this year. Though the West Texas Intermediate benchmark price is back over $40 per barrel, the rebound will do little to prevent 15 years of debt-fueled production growth catching up with many shale producers, Deloitte said in its study.

Technical insolvency is an accounting way of saying a company will face problems meeting debt repayments. "New and unforeseen headwinds continue to jolt the industry's progress," the report said. Shale was just getting on a more solid footing and learning to live with $50 oil before the COVID-19 pandemic ripped through global crude demand, causing prices to plunge. Now shale producers may be forced to write down their assets by $300 billion this year, Deloitte said. That's equivalent to the entire market value of Chevron and Shell, the world's No. 2 and 3 oil companies.

While the write-downs are non-cash items, they reduce the value of a company's equity and increase debt-to-equity ratios, a key measure of indebtedness used by lenders. That "can trigger many negative sequences of events, including bankruptcy," Deloitte said. Shale producers' financial problems stem from a decade of huge production growth using new fracking technologies funded by massive borrowing and financing. The boom propelled the U.S. to become the world's largest producer of oil and gas, but companies burned through $342 billion since 2010, leaving little in returns for investors.

New Mexico passes smaller budget to cope with falling oil revenues

(Bloomberg; June 22) - As COVID-19 shock waves reverberate across U.S. oil towns, perhaps nowhere is their speed and severity more apparent than in America's newest shale powerhouse. Just months ago, New Mexico, the third-biggest oil-producing state, approved its largest budget ever, paid for by oil, which supplied 40% of state revenues in 2019. Now that plan has been slashed by more than $600 million, hitting everything from pay raises for state workers to a program for free community college classes.

Oil-producing states are facing a double whammy with drilling and overall consumer spending cut back by the pandemic. New Mexico, meanwhile, stands as exhibit A of this boom-to-bust dynamic, with the state's revenue forecasts plunging. "We were just starting to stand on two legs," said Reilly White, a finance professor at the University of New Mexico. "The rug has just been swept out from under us."

When New Mexico's Legislature initially passed its budget in February, it assumed an average oil price of $50 and continued growth in the state's part of the Permian Basin. But in the months since with U.S. lockdowns underway, crude futures fell as low as negative $40 a barrel. Companies with operations in New Mexico have all reduced the number of rigs they plan to run in the state this year. And many producers have also taken the unprecedented step of curtailing significant portions of their existing output.

Prices have rebounded somewhat, but oil and gas producers have yet to reboot their output to previous levels, and the state now expects its monthly royalty revenues to drop by half. On June 20, the Legislature — meeting in a special session — reacted by sending a new pared-down budget plan for Gov. Michelle Lujan Grisham to sign.

Congress considers legislation to fund orphan well cleanup

(Energy News Network; June 23) - When the United States was fighting to emerge from the Great Depression in the 1930s, President Franklin D. Roosevelt launched ambitious public works projects to put people back on the job. Now with the country in the midst of another crushing economic slowdown, can cleaning up abandoned oil and gas wells fill in as a similar stimulus? That's the question on Capitol Hill, as negotiations are underway to appropriate tax dollars to plug orphan oil and gas wells.

Democrats leading the push say the plan has no real downside, as it would create temporary jobs in the oil fields while cleaning up wells that emit greenhouse gases, leak air and water pollution and pose an explosion hazard. "It's a win for the environment, it's a win for states, it's a win for workers," chair of the Subcommittee on Energy and Mineral Resources Rep. Alan Lowenthal, D-California, said during a June 1 forum.

Moderates on both sides of the aisle and a coalition of green groups are hailing the momentum to address orphan wells as a much-needed win for jobs and environmental cleanup. But some panned the negotiations as sidelining reform efforts to increase bonding requirements for companies to pay the cleanup costs. On June 22, the House unveiled the more than 2,000-page Moving Forward Act that proposes an infrastructure-focused stimulus package and included the first public salvo in the funding negotiations.

The bill would give the Department of the Interior and Department of Agriculture 90 days to create a federal well-plugging program that would receive $2 billion over five years. The grants would be used to pay private-sector companies to plug and abandon a list of about 57,000 orphan oil and gas wells that have no identifiable owner.

Additional 40-45 U.S. LNG cargoes could be canceled in August

(Reuters; June 22) - Buyers of liquefied natural gas are expected to cancel 40 to 45 U.S. cargoes for August loading due to a slow recovery in Asian gas demand and record high European gas stockpiles, market sources said June 22. The exact number of cancellations is yet to be confirmed, but sources said they expect the number for August at close to 40 to 45 cargoes, the same number as July's canceled loadings.

That followed at least 20 to 30 U.S. LNG cargoes cancelled for June loading after the coronavirus pandemic hit gas demand globally, causing pipeline gas and LNG prices to plummet. The premium of gas prices in Europe over the U.S. Henry Hub benchmark remains too tight to deliver U.S. LNG cargoes with a profit, after the cost of the feed gas, liquefaction and transport costs are totaled, sources said.

The August contract on the Dutch gas hub on June 22 was trading around $0.10 per million Btu above the Henry Hub for August. "At those levels, European buyers are looking at a loss of over $5 per million Btu compared with just paying a cancellation fee of $3 to $3.50," a trader with knowledge of the matter said. Companies that decide not to take delivery of the LNG still are contractually obligated to pay a fixed fee for the liquefaction capacity they had reserved at the LNG terminal.

U.S. crude exports to Asia steadily rising

(Bloomberg; June 21) - As the OPEC+ alliance sticks to its guns in trying to curb oil output to shore up prices, Asian buyers are increasingly looking to the U.S. for a cheaper source of supply. Refiners in the top crude-importing region have been forced to accept big reductions in their regular contracted volumes from producers including Saudi Arabia and Iraq in the past couple of months. They've also been taken aback by sharp swings in official selling prices that are significantly higher than April's lows.

The lower volumes and pricing uncertainty is encouraging Asian buyers to take a closer look at U.S. crudes, particularly as freight rates across the Pacific have fallen the past couple of months. The cost of hiring a Very Large Crude Carrier, which can hold 2 million barrels, for a journey from the U.S. Gulf Coast to China was around $7.5 million in mid-June compared with $15 million in late April. Staff at four Asian processors that buy and sell crude said they were considering purchasing U.S. oil.

Saudi Arabia and other OPEC members have reputations as reliable suppliers to Asia, but the price war followed quickly by massive output cuts have unsettled buyers. While traditional suppliers are unlikely to be overtaken by the U.S. anytime soon, the instability has created an opening for American producers. The volume of U.S. oil flowing to Asia is already rising. About 49 million barrels are scheduled to arrive next month, compared with 27 million barrels each in May and June, figures from Vortexa show.

Mozambique government guarantees country's stake in LNG project

(Reuters; June 22) - Partners in Mozambique LNG, the $20 billion natural gas project led by Total, have received a $2.25 billion guarantee from the government that it will pay the state oil company's equity share if required, Portugal's Lusa news agency said. Carlos Zacarias, president of Mozambique's regulator, the National Petroleum Institute, said state financing had been secured, the news agency reported late last week.

Partners agreed to accept a $2.25 billion government guarantee in lieu of an immediate equity contribution from state-run National Hydrocarbon Co. (ENH), Zacarias said in Cabo Delgado, the northern province where the project will be built. Zacarias said the guarantee is valid for five years. A Total spokesman said he had no information on the report. Each partner in the project is required to make a minimum capital contribution for the development, which is planned for 12.9 million tonnes annual capacity.

ENH has a 15% interest in the project that is expected to start production in 2024, while Total owns 26.5% after acquiring its stake from Anadarko for $3.9 billion in 2019. The French energy major has secured $15 billion in funding for the project, with signing on the financing scheduled for June 30, a source said. The other partners are Japan's Mitsui, at 20%; Thailand's PTTEP, at 8.5%; two oil and gas companies from India, at a combined 20%; and Beas Rovuma Energy Mozambique, at 10%.

Enbridge shuts down pipeline that crosses Great Lakes waterway

(Detroit Free Press; June 20) - The state of Michigan wants proof from Enbridge that its Line 5 oil and gas pipeline system is structurally sound after the Canadian oil transport giant on June 18 reported significant damage to an anchor support that helps to hold the pipeline steady along the bottom of the Straits of Mackinac that connects lakes Michigan and Huron. Enbridge voluntarily shut down operation of the 67-year-old pipelines on the lake bottom after discovering the damage and is investigating.

Enbridge alerted the state that an anchor support on one of the dual pipelines running along the bottomlands of the straits had incurred significant damage. Enbridge shut down the line and is gathering more information using divers and a remote-operated underwater vehicle. The pipeline remains shut down as Enbridge gathers information. “As part of Enbridge’s seasonal maintenance work on Line 5 in the Straits we have discovered a screw anchor support that has shifted from its original position. This is an issue affecting that anchor support and not the pipeline itself,” Enbridge said.

Line 5 moves 23 million gallons of oil and natural gas liquids per day east through Michigan’s Upper Peninsula, splitting into twin underwater pipelines through the Straits, before returning to a single pipeline through the Lower Peninsula that runs south to Sarnia, Ontario. Many have expressed concern about the aging pipes over several years, noting that a pipeline disaster in the Straits could devastate the Great Lakes environment and economy. Enbridge is doing early work on a controversial, $500 million tunnel beneath the Straits bottom, through which it would run new oil and gas pipelines.

Chinese buyer will auction two ‘carbon-neutral’ LNG cargoes

(Argus Media; June 22) - Chinese state-controlled importer China National Offshore Oil Corp. has signed a deal to receive two "carbon-neutral" liquefied natural gas cargoes from Shell for delivery to China, marking the country's first such LNG cargoes. CNOOC intends to auction the cargoes on the Shanghai petroleum and natural gas exchange to provide downstream gas users with the opportunity of “decarbonizing” their use of LNG. No dates for the auction were disclosed.

Carbon credits from a variety of projects including Shell-supported forestation projects in China's Qinghai and Xinjiang provinces will fully offset the carbon dioxide emissions from producing the gas up to the final, full consumption of the two cargoes, Shell said. Those offsets, in effect, allow CNOOC to market the gas as carbon neutral.

CNOOC has supply agreements with Shell for LNG deliveries from the company’s share of the Queensland Curtis LNG project in Australia. It also has a 50% stake in one of the terminal’s gas liquefaction trains. Shell has previously supplied carbon-neutral LNG cargoes to other northeastern Asian consumers. It supplied Taiwan's state-owned CPC with a cargo in March. It supplied in June last year one cargo each to Japanese utility Tokyo Gas and South Korea's GS Energy.