Oil and Gas News Briefs
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OPEC+ members agree to extend production cuts through July

(Bloomberg; June 6) - OPEC+ has agreed to a one-month extension of its record output cuts to the end of July and adopted a strict approach to ensuring members don't break their production pledges. It's a victory for Saudi Arabia and Russia, which put a painful price war behind them to successfully cajole Iraq, Nigeria, and other laggards to fulfill their promises to cut production. The OPEC+ leaders showed that they intend to keep a close watch on the oil market, meeting every month to assess the balance between supply and demand amid an uncertain economic recovery from the global pandemic.

After a video conference lasting several hours on June 6, delegates said all nations had signed off on a new deal for a production cut of 9.6 million barrels a day next month. That's 100,000 barrels a day lower than the reduction in June because Mexico will end its supply constraints, but a tighter limit than the reduction of 7.7 million barrels a day that was to start in July. The OPEC+ cutbacks have helped boost oil prices to $40.

Any member that doesn't implement 100% of its production cuts in May and June will make extra cuts July to September to compensate. That's a vindication for the Saudis, who have consistently pushed others to stop cheating. But it could also add an element of risk. In theory, the entire 23-nation agreement, which runs to April 2022, is contingent on every member making 100% of its pledged cuts. That's rarely been achieved in the 3½ years that OPEC+ has existed or in the decades-long history of OPEC itself.

Cutting output is always painful for oil-dependent states. Iraq in particular needs every penny because it's still rebuilding its economy following decades of war, sanctions, and Islamist insurgency. Iraq made less than half of its assigned cutbacks last month.

Low oil revenues threaten Nigeria's political system

(Bloomberg; June 5) - The collapse in international oil prices, having dealt a devastating blow to Nigeria's finances, now threatens the West African nation's shaky political system. Earnings from crude sales will plunge 80% to 1.1 trillion naira ($2.84 billion) this year, the nation's budget office said last month. A protracted loss of income could leave most of Nigeria's 36 states unable to function. It would also aggravate long-simmering tensions in the oil-rich Niger River delta for local control of natural resources.

"Apart from one or two, none of the current 36 states can survive a prolonged loss of oil revenue," said Clement Nwankwo, executive director of the Abuja-based Policy and

Legal Advocacy Centre. "For them, that means an existential crisis." The federal government of Africa's biggest oil producer has been doling out money to its states for the past half century. The revenue-sharing formula allocates 53% of available federal revenue to the national government, 27% to the states, and 20% to local administrations.

"As allocations shrink, and perhaps even disappear temporarily, some states could become insolvent," Matthew Page, an associate fellow at London-based Chatham House, said in a May report. "The country's sprawling constellation of federal and state ministries, departments, and agencies may shrink out of financial necessity, rather than deliberate reform." Competition for financial resources has stoked destructive political rivalries. Militants operating in the southern oil-rich delta and a secessionist movement in the southeast are attracting followers in communities angry at not getting a fair share.

Angola cuts back on oil-for-debt shipments to China

(Reuters; June 5) - Angola has cut the number of oil cargoes that it ships to China's state firms to pay down debt to Beijing as it seeks to renegotiate repayment terms to deal with the crippling impact of the coronavirus, sources familiar with the matter said. Angola said this week it had asked for G20 debt relief and was in advanced talks with some countries importing its oil to adjust financing terms. This spring's low oil prices put heavily indebted Angola into a fragile state as it derives a third of its revenues from oil.

By far, its biggest creditor is China. Analysts say Angola has over $20 billion in bilateral debt with the lion's share owed to China. Much of the cash was borrowed to build roads, hospitals, homes, and railways across the southern African country. On top of its Chinese debt, Angola secured a $3.7 billion loan from the International Monetary Fund last year and state oil firm Sonangol borrowed $2.5 billion from banks between the end of 2018 and mid-2019, the IMF said.

The OPEC-led global oil output cut added to Angola's woes. As an OPEC member, Angola was pressured to cut its exports. That left the country with fewer and lower-value cargoes to split between paying off its Chinese debt and filling its depleted coffers. Sources said China's state-owned Sinochem would receive five cargoes in July, down from the usual seven or eight, while the trading arm of Sinopec (Unipec) would receive none. Unipec typically receives two to three cargoes a month as debt repayment.

Russia says melting permafrost caused diesel tank spill

(Agence France-Presse; June 6) - An unprecedented diesel fuel spill that has polluted huge stretches of arctic rivers was caused by melting permafrost, damaging a fuel tank at a power plant, Russian officials said, ordering a review of infrastructure in vulnerable zones. The spill — which has colored remote tundra waterways with bright red patches visible from space — has highlighted the danger of climate change for Russia as areas covered by permafrost for centuries thaw amid warmer temperatures.

A huge clean-up effort is underway outside the arctic city of Norilsk, which President Vladimir Putin said should be bankrolled by metals giant Norilsk Nickel. A national-level state of emergency was announced after almost 160,000 barrels of diesel spilled from a reservoir that collapsed May 29. Norilsk Nickel owns the reservoir through a subsidiary. Criminal probes have been launched, and Russia's prosecutor general's office said that preliminary findings indicate sagging ground as the reason for the disaster.

Norilsk, one of Russia's biggest industrial centers, is above the Arctic Circle and the company had already said it suspects permafrost thawing. Other factors may be at play too: The country's technical safety watchdog told TASS news agency that it has been unable to check the condition of the 35-year-old tank since 2016 because Norilsk said it was under repairs. The company tried to contain the damage on its own for two days before specialists were called in and managed to stop the spill from spreading further.

China an increasingly important oil customer for Mideast countries

(Bloomberg; June 3) - China is an ever-more important customer for Middle Eastern oil producers as they scramble to find buyers in the wake of the coronavirus. The region's petro-states shipped about one in every three of their barrels last month to China. That's the biggest proportion in at least 2½ years, tanker tracking from six Persian Gulf nations show. Their push into China comes with its oil demand having all-but recovered from the pandemic, while consumption in swaths of Europe and the U.S. is still down sharply.

"Middle Eastern producers don't have much choice now other than to direct their oil to China," said Carole Nakhle, chief executive of London-based consultancy Crystol Energy. It's still risky, however, because anything that derails China's economic recovery from the virus could sap oil demand, she said. Iraq, the Mideast's second-largest oil producer, in May sent about half its shipments to China, a record.

The Saudis, Kuwait, and the United Arab Emirates all shipped more crude than ever to China in April, when they were pumping record or near-record amounts. A month later supplies to China were almost as large, despite the unprecedented reductions overall.

Regulatory hearing in Minnesota will add delay to Canadian oil line

(Reuters; June 3) - A Minnesota pollution regulator said June 3 that it will hold a public hearing this summer on Enbridge's $3 billion plan to replace its 1960s-era Line 3 oil pipeline, adding a potential three-month delay and pushing the bulk of construction to next year. The Minnesota Pollution Control Agency (MPCA) said the hearing will focus on how Enbridge intends to protect streams and wetlands that the pipeline crosses.

Replacing Line 3, a branch of Enbridge's Mainline network, would allow the company to about double the flow to 760,000 barrels a day from a Canadian oil hub in Edmonton to U.S. Midwest refiners. A shortage of pipeline capacity has weakened Canadian oil prices in recent years. MPCA granted Enbridge a draft water quality certificate in February. But during a public comment period, activist groups, and indigenous bands raised concerns, leading the state agency to schedule the additional hearing.

The deadline for MPCA to issue the certificate is now Nov. 14, instead of Aug. 15. In a statement, Calgary-based Enbridge said it would work in the meantime to secure remaining permits in order to start construction this year, but most work will now happen in 2021, it said. The Line 3 replacement may now begin service in mid to late 2021, Stifel FirstEnergy analyst Ian Gillies said. The pipeline stretches about 1,000 miles from Alberta to a connection point in Wisconsin.

Pipeline welding starts for LNG Canada project in Kitimat, BC

(The Northern Sentinel; Kitimat, BC; June 2) – On June 1, workers were completing the first in-field pipeline welds for the Kitimat portion — known as Section 8 — of the 415-mile pipeline from the gas fields of northeastern British Columbia to the liquefaction plant and export terminal under construction in the coastal community. The welds are being made in preparation for installation of pipe under the Kitimat River. Installation of this initial segment — approximately 1,600 feet in length — is slated to start in late July.

The C$40 billion Shell-led LNG Canada project — which includes the pipeline — is planned for 14 million tonnes annual capacity in its first phase, with start-up scheduled for 2024. In addition to Shell, the development partners include PetroChina, Korea Gas, Malaysia's Petronas, and Mitsubishi.

Massachusetts may look at whether gas has a future in the state

(Reuters; June 4) - Massachusetts' attorney general asked the state's public utilities regulator on June 4 to probe the future of the natural gas industry as the state moves away from burning fossil fuels because they contribute to climate change. If regulators open the investigation, Massachusetts would become the third state to launch a formal process to phase out gas, the office of Attorney General Maura Healey said.

California and New York are also studying a transition away from relying on gas for heating buildings and cooking in favor of electrified systems powered by renewable sources. In a petition filed with the Department of Public Utilities, Healey's office said Massachusetts would have to make large cuts in its use of fossil fuels to meet the state's goal of net-zero greenhouse gas emissions by 2050, and that the decline would require gas distribution companies to make substantial changes to their businesses.

"There has been little public discussion of the resulting business planning and financial implications of building electrification," the petition said. The utilities regulator said it was reviewing the filing. Until recently many environmentalists considered gas a “bridge fuel” to a future of renewable energy. But research is mounting that gas contributes significantly to global warming by leaking from distribution lines and other sources. Proponents, however, argue the fuel is cheaper than alternatives and that the industry is limiting its methane emissions with improved efficiency and leak detection.

High storage inventories hold down U.S. natural gas prices

(The Wall Street Journal; June 4) - U.S. natural gas storage inventories are more than 18% higher than the five-year average, according to figures released June 4. Lower demand for power and weak export markets are among the causes. With high storage comes low prices: Henry Hub futures are at $1.82 per million Btu, just 27 cents above their multiyear low earlier this year. They have dropped almost 17% in the year to date. All that cheap gas is further cannibalizing coal’s share of the power-generation market.

While electricity produced from coal declined more than 30% in March compared with the previous year, power generated by gas increased 11.5% over the same period, according to U.S. Energy Information Administration data. And while industrial demand for gas is expected to decline by 7% this year, according to the EIA, much of that is offset by the commodity’s increased use to generate electricity, said Richard Redash, head of global gas planning for S&P Global Platts.

U.S. producers have been looking to export sales to ease the oversupply, but the global pandemic’s effect on demand is punishing them. “A big part of why the U.S. was able to absorb its formerly growing production was because it was exporting more liquefied natural gas,” said Redash. Exports have been the source of the fastest-growing demand for U.S. gas, growing 157% from 2017 to 2019, according to the EIA. U.S. LNG exports averaged 6.7 billion cubic feet a day in May, the lowest level since October of last year.

Record low LNG prices hard on U.S. suppliers

(Reuters commentary; June 3) - With the recovery in crude oil prices, spot liquefied natural gas has assumed the unwanted mantle of the worst-performing major energy commodity this year. Amid a strongly oversupplied market, spot LNG for delivery to

North Asia in July dropped to $1.85 per million Btu in the week to May 29, down from $1.92 the prior week and matching the all-time low of earlier in May.

The price is down by nearly three-quarters from the winter demand peak of $6.80 from mid-October and is almost two-thirds weaker on a year-to-date basis. For LNG, the situation is more complex than crude. Liquefaction trains are more difficult to shut down or run at substantially lower rates than oil wells, meaning that shutting in LNG output is usually the last option a plant operator will consider. The bleak economics have made U.S. LNG uncompetitive in the key European and Asian markets. Some 45 U.S. cargoes have been cancelled for July, double the number from June, Platts reported.

U.S. gas futures closed at $1.82 on June 3, meaning that once the expense of liquefaction and freight are added in, the cost of delivering a cargo of U.S. LNG to Asia would be at least $5 — more than double the current spot price it would fetch. Other sellers from major exporters such as Australia, Qatar, and Russia are also likely to be feeling the pain. However, given the bulk of cargoes from those producers are sold under oil-linked, longer-term contracts, it’s likely those are still in the money.

Canadian gas producers seek government aid for LNG financing

(Calgary Herald; June 5) - Marty Proctor and his team at Calgary-based natural gas producer Seven Generations Energy have worked for years to find an easier way to send their gas to more lucrative markets overseas. Right now the company sends its gas from wells near Grande Prairie, Alberta, more than 1,800 miles southeast to Chicago, before it changes pipelines and travels another 1,000 miles to Louisiana, where it is supercooled at a liquefied natural gas facility along the Texas border.

From there, the LNG can be shipped to Europe and Asia. The long journey has been a profitable way for Seven Generations to market gas for the past three years. But overseas gas markets have collapsed in recent months, which has put pressure on other markets around the world as well. The price in Europe is even worse than the price in the United States, Proctor, chief executive of Seven Generations, said.

The market chaos is frustrating the company’s efforts to find a shorter route for its gas to liquefaction plants and overseas markets. The company in 2016 bought a stake in an early-stage LNG project on Vancouver Island called Steelhead LNG. It then partnered with nine other gas producers to form Rockies LNG, trying to build a project in northern British Columbia. But neither of those ideas have worked out amid difficulties finding joint-venture partners, financing and offtake agreements to underpin construction.

Canadian producers believe U.S. LNG facilities grab too much of the value in the supply chain. Proctor said part of the idea behind the Rockies LNG project is so that producers can capture more margin for their gas. With few options to raise capital, LNG supporters are asking Canada’s federal and provincial governments to help with project financing as part of an economic stimulus package to restart the COVID-weakened economy.

Petrochemical industry delays investments

(Reuters; June 3) - The energy industry's bet that a petrochemicals boom would support decades of oil and gas sales growth is on shaky ground as an already saturated plastic market is hit by a coronavirus-related demand shock. While soaring demand for personal protective equipment and takeaway food containers has boosted sales of some plastics, it is likely to be only a temporary spike, analysts say.

In the longer term, a virus-led hit to economic growth in Asian, African, and Latin American markets threatens demand at a time when the industry is already facing bans on single-use plastic that are spreading across the world. Plastic resin prices, which have been declining over the past two years, have plunged further since the coronavirus hit. "The petrochemicals world has been hit by a double whammy," said Utpal Sheth, executive director for Chemical and Plastics Insights at data firm IHS Markit. "Capital investment has been slashed by all companies. This will delay the projects."

Thailand's PTT and South Korea's Daelim have indefinitely delayed an investment decision on a $5.7 billion project in Ohio, industry sources said. Still, there are 176 new petrochemical plants planned for the next five years with nearly 80% of those in Asia, according to energy consultancy Wood Mackenzie. Many plants under construction or late in the planning stages can't be rolled back without incurring massive losses.

LNG cargo from Nigeria appears headed to U.S. for better price

(Reuters; June 5) - A ship carrying liquefied natural gas from Nigeria is in the middle of the Atlantic Ocean and heading northwest and may drop its cargo in the United States. The ship, Madrid Spirit, does not have a destination listed on vessel tracking data from Refinitiv. Its travel has slowed in the past week or so, suggesting it may be searching for a home. A unit of Shell chartered the ship, according to people familiar with the matter. Shell declined to comment.

The United States, which is the world's third-biggest LNG exporter behind Australia and Qatar, does not receive a lot of LNG imports, but they do occur. There were 21 LNG deliveries to the U.S. last year, mostly from Trinidad, while the U.S. exported more than 500 cargoes. Madrid Spirit left Nigeria around May 25, as gas prices at the Henry Hub in Louisiana were higher than European hubs, which dropped to all-time lows last week as weak demand due to the coronavirus and record stockpiles pressured producers.

India’s Petronet LNG deal for Louisiana project lapses

(Natural Gas Intelligence; June 5) - Tellurian confirmed June 5 that a memorandum of understanding with India’s Petronet LNG has expired in a development that’s likely to delay sanctioning of its massive natural gas export project in Louisiana. Spokesperson Joi Lecznar said while the agreement lapsed, discussions are ongoing with Petronet and other possible offtakers for the proposed LNG terminal south of Lake Charles. At full operation, the plant would be capable of producing 27.6 million tonnes per year.

Under the agreement signed last year, India’s largest LNG importer would have negotiated to purchase up to 5 million tonnes per year from the developer’s Driftwood LNG terminal and take a $2.5 billion equity stake. The deal was seen as one of the last pieces needed to reach a final investment decision on the project. It would have left Tellurian with only 4 million tonnes of capacity to sell and a path toward moving ahead with the first phase of the project. The company has other supply deals in place.

The agreement was jeopardized after Tellurian management traveled to India in February, a trip that many market observers expected would result in a signed supply deal. It instead led the parties to push back finalizing a transaction until May 31, two months later than the March 31 date set out in the agreement last year. The expiration is the latest in a series of setbacks for Tellurian as it grapples with a flooded LNG market that’s pushed prices to historic lows and made it difficult to land long-term deals.

Exxon dismisses as speculation 2021 decision on Mozambique LNG

(Reuters; June 3) - Mozambique’s National Petroleum Institute expects ExxonMobil’s final investment decision on a $30 billion gas project in the north of the country in 2021, the institute said June 3, though Exxon dismissed this as speculation. “The final investment decision of the Rovuma LNG project has been postponed to, in principle, next year,” the Institute Chairman Carlos Zacarias told journalists, referring to the Exxon-led project in the gas-rich province of Cabo Delgado.

An Exxon spokesman referred to the comments as “third-party speculation,” adding that “Rovuma LNG is a complex project that will take several years to develop.” He said the decision would not be made this year but declined to comment on when. Exxon’s decision on the project, which had been expected this year, was postponed in March as the coronavirus outbreak and oil-price slump forced companies to delay projects and cut spending. Exxon did not say when it planned to make a call on the project.

Other big oil companies, including France’s Total and Italy’s Eni, are involved in their own liquefied natural gas projects in Mozambique, home to one of the biggest gas finds in a decade. The projects have the potential to transform the economy of Mozambique, one of the world’s least developed nations. But apart from the coronavirus, the projects are complicated by militant Islamists in the province with links to Islamic State.

Australia’s LNG exports up 11% to a near record

(Australian Financial Review; June 5) - Australia's exports of liquefied natural gas are holding at near-record levels, defying a global supply glut that has swamped the market, causing prices to crash and driving the cancellation of cargoes from the U.S. LNG production from Australia’s plants on the northwest and eastern coasts rose in the March quarter by 11% from the year-earlier quarter to a near-record 19.9 million tonnes, according to the latest analysis from consultancy EnergyQuest, released June 5.

Australia's LNG exports are remaining resilient, but revenues are expected to crash in 2020-21. EnergyQuest said the resilience of Australia's world-leading LNG exports were underpinned by continued growth in demand in North Asia with rising consumption in South Korea, China, and Taiwan more than offsetting a dip in Japan. The company expects LNG export revenues to reach $50 billion this fiscal year, similar to last year, although it forecasts a slump of as much as $20 billion in 2020-21 as lower prices hit.

But the COVID-19 pandemic and the plunge in oil prices have taken a toll on future growth in Australia’s gas industry with EnergyQuest calculating that $60 billion of LNG investment across five major projects have been put on hold. Australia's five largest oil and gas companies slashed about $6.2 billion in short-term spending between them after the collapse in crude prices, putting a range of projects in limbo.

Rate cut would hurt economics of burning gas at Chinese utilities

(Bloomberg; June 5) – Cleaner-burning gas, a bright spot in China’s coal-dominated power mix, is at risk from a proposed rate cut. The southern province of Guangdong is mulling a 5% to 12% cut in rates that gas-fueled electricity generators can charge, says a report on a website run by China Southern Power Grid, referencing an unpublished policy consulting paper from the Guangdong Development and Reform Commission.

The hike could be enough to idle some marginal power plants that had been feasting on cheap gas imports. When LNG prices began falling to $2 per million Btu, Guangdong utilities were among a handful of buyers snapping up cargoes. The tariff cut threatens to derail that growth as even with the lower LNG prices, older and less-efficient plants struggled to operate at a profit in the first half, Lin Shitao, director of a subsidiary of Shenzhen Energy Group, said in a webinar June 4.

Guangdong is one of the few provinces with enough gas-fired generation to create price competition with coal, which dominates the country’s power sector because it is abundant in the country and affordable. Guangdong is a rare exception. Wealthy and relatively far away from the coal mines in the north, gas-fired power makes up about 18% of its capacity, compared to 48% for coal with hydropower, renewables, and nuclear providing the rest. The province is planning to boost gas-fired capacity by 50%.

Total-led Mozambique LNG raises more financing than planned

(Bloomberg; June 5) - Total’s liquefied natural gas project in Mozambique raised $15 billion of debt — about the same size as the African country’s economy — exceeding a funding target even as the virus pandemic threatens the global financial system. Energy companies have struggled over the past few months as prices of everything from oil to natural gas slumped with the coronavirus sapping demand. While crude has staged a partial comeback, the gas market continues to be hammered by a massive oversupply.

Lenders have still backed Total’s Mozambique LNG, betting on the country’s location for ease of export and the sheer size of gas deposits linked to the project — estimated at about 150 trillion cubic feet. It raised $600 million more than planned with pricing at pre-coronavirus levels, said Katan Hirachand, managing director for energy at Societe Generale, which advised on financing. “To have oversubscription in this environment is really phenomenal and is testament to the strength of the project,” he said.

The $23 billion project has been years in the making with Anadarko discovering the first major offshore gas deposit over a decade ago. Occidental then bought Anadarko and sold the project to Total last year. Mozambique LNG, and others being developed by ExxonMobil and Eni, are crucial for the southern African nation, one of the poorest in the world. The World Bank estimates its gross domestic product at $14.7 billion. The location between Europe and Asia is a major advantage for gas projects in the country.

BP cuts the price on sale of North Sea assets

(BBC News; June 5) - BP has agreed to heavily discount the price of North Sea assets it is planning to sell to U.K.-based Premier Oil. The two companies reached a deal in January which would have seen Premier pay $625 million for BP's interests in the Shearwater and Andrew fields. Under new provisional terms drawn up following the slump in oil prices, the price has been cut to $210 million. A further $115 million will be payable to BP if oil climbs above $55 a barrel. It currently stands at $41.

The new agreement ends a legal dispute with Premier's largest creditor, hedge fund Asia Research and Capital Management, which had opposed plans by the energy firm to extend its debts and make acquisitions. BP has a 28% share in the Shell-operated Shearwater gas field which lies about 125 miles east of Aberdeen, Scotland. The BP-operated Andrew Area for oil and gas is 140 miles northeast of Aberdeen.