Oil and Gas News Briefs
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Hope fades for oil deal; global demand collapse could get worse

(Bloomberg; March 23) - Oil prices continue flirting with almost 20-year lows as prospects for a deal to limit production have appeared to fade. Ryan Sitton, of the Texas Railroad Commission, which regulates the oil and gas industry in the state, on March 20 landed a rare invitation to attend OPEC's June meeting, but hours later hopes for an agreement unraveled as his call to curb output was criticized by regulators and drillers.

"Just got off the phone with … Barkindo (Mohammed Barkindo, secretary-general of the Organization of the Petroleum Exporting Countries). Great conversation on global supply and demand," Sitton said on Twitter on March 20. "We all agree an international deal must get done to ensure economic stability as we recover from COVID-19."

But the chance that either Saudi Arabia or Russia will back down from their two-week-long price-and-production war seems remote, with President Vladimir Putin unlikely to submit to what he sees as the kingdom's oil blackmail, according to Kremlin watchers. The brinkmanship is taking place against a rapidly darkening oil-demand outlook with more nations going into lockdown to tackle the coronavirus. Some traders see global crude demand collapsing by as much as 10 to 20 million barrels a day, or 10% to 20%.

"Oil could head to $10 to $15 a barrel very quickly" if there is no agreement on cutting production, said Stephen Innes, chief Asia market strategist at Axicorp. Even if crude demand recovers to normal levels by the middle of the year, 2020 is still on course to suffer the biggest drop in oil consumption since reliable records back to the mid-1960s.

Cheap oil makes coal the most expensive fossil fuel

(Bloomberg; March 23) - Coal, the dirtiest and usually the cheapest option for energy, is now the world's most expensive fossil fuel. Oil's epic collapse over the past month means the global crude benchmark is now priced below the most widely traded coal contract on an energy-equivalent basis, according to Bloomberg calculations. Australia's Newcastle coal on ICE Futures Europe settled at $66.85 a metric ton on March 20, the equivalent of $27.36 a barrel of oil. Brent futures ended that day at $26.98 a barrel.

While coal consumption in the U.S. and Europe has fallen because of cheap natural gas and renewables, as well as flat energy-demand growth, coal use continues to rise in Asia, where it's traditionally been the cheapest option for energy-hungry emerging markets. It's also the dirtiest fossil fuel, emitting about twice as much carbon dioxide as natural gas and 30% more than gasoline when burned.

Coal's new top ranking on price — more a function of the sudden drop in crude prices than a surge in coal demand — must be sustained before it would incentivize switching plants and investments away from coal. In the short term, Japan's coal use could fall marginally this summer in favor of cheaper LNG, said Goldman Sachs. Newcastle coal, which is priced at Australia's main port, has been trading on an energy-equivalent basis above the Japan-Korea Marker, the benchmark for LNG in Asia, for most of this year.

Colorado lawmakers will scrutinize oil and gas tax breaks

(The Colorado Sun; March 23) - This year an oil and gas tax break is expected to grow so large — and prices drop so low — that many of Colorado's oil wells would owe the state nothing in severance taxes. Colorado in 2018 granted the industry $308 million in one of the state's largest tax breaks, the property tax credit. The tax break is expected to grow in the coming years, hitting the state's coffers at a time it needs money and as lawmakers reassess Colorado's crumbling fiscal picture amid the coronavirus outbreak.

Lawmakers said they plan to convene a study committee this summer to scrutinize the taxes the industry pays and the ones it doesn't. A recent nonpartisan legislative analysis found that the industry pays the second-lowest severance tax rate of nine Western oil-producing states, and the third-lowest rate when factoring in other state and local taxes. Gov. Jared Polis, lawmakers and the state auditor's office have all been conducting their own reviews of the state's 208 tax breaks over the past year or more.

The property tax credit allows oil and gas companies to deduct 87.5% of local property taxes from their state severance tax payments. Compared to other industries, oil and gas companies pay much higher local tax rates since their properties are assessed at three times the rate of other businesses — industry has long cited this as justification for the tax credit. Over the years, special tax districts have multiplied across the state, piling more layers of local taxes on the industry, while school districts have been steadily raising tax rates to offset mandated cuts to residential property taxes. As a result of their credits, producers 2008-2018 paid an average effective severance tax rate of just 1.3%.

U.S. shale sweet crude cannot be blended with sour crude in storage

(Bloomberg commentary; March 19) - The U.S. shale oil industry may not benefit as much as the president hopes from his plan to add to the country's Strategic Petroleum Reserve as oil prices plunge to historically low levels. He vowed to fill it "right to the top" with home-pumped crude in order to support producers and boost U.S. stockpiles at cheap prices. But there's a hitch in the plan. The problem is sulfur — or rather the lack of it in the crude pumped from wells drilled into the shale rocks of Texas and elsewhere.

About two-thirds of the spare capacity in the Strategic Petroleum Reserve (SPR), is for sour crude — with a sulfur content of above 0.5% — but the crude pumped from the shale rock of West Texas and elsewhere in the U.S. has very low concentrations of sulfur, if any. This makes that sweet crude unsuitable for blending into the sour crude stored in the SPR. The reserve consists of 60 underground solution-mined salt caverns spread across four sites along the Gulf coast of Texas and Louisiana.

Each site holds sweet crude — with less than 0.5% sulfur — and sour crude in separate caverns. Total capacity of the SPR is 275 million barrels of sweet crude and 479 million barrels of sour with 250 million barrels of sweet crude and 385 million barrels of sour already in the caverns. Much of the shale oil output would have too little sulfur to permit blending with sour crude. Only crudes of similar composition are commingled in storage.

Price collapse threatens jobs in the oil patch

(Bloomberg; March 21) - One of the most painful busts in the history of U.S. crude oil happened just six years ago when a sharp price drop cost 200,000 roughnecks, almost half the entire workforce, their jobs. And now the spread of the coronavirus coupled with an oil-price war between Russia and Saudi Arabia threatens to devastate the oil services industry and its workers once again.

Tens of thousands of Texans are being laid off across the state in places like the Permian Basin shale fields in West Texas as companies shut down drilling rigs, said Ryan Sitton, a state oil regulator. "There's definitely blood in the water," said Dan Eberhart, CEO of Denver-based Canary, an oil-field services company. The cutbacks follow a precipitous drop in the price of U.S. benchmark West Texas Intermediate. Futures are down more than 60% this year and just had their worst week since 1991.

While workers in just about every industry are threatened by the economic slowdown, few are more at risk than those in the oil patch. The Midland-Odessa region of West Texas could be decimated, said a Brookings Institutions report. More than 40% of Midland's workforce is in high-risk industries, mostly oil and gas, the highest of any area in the U.S. "It's pretty overwhelming," said Kendrick Trinidad, a 25-year-old worker who said he was previously a frack supervisor for Recoil Oilfield Services and most recently was put on standby until further notice at another company, Big Ass Tanks.

Exxon reportedly telling contractors it will cut spending

(Reuters; March 22) - ExxonMobil is notifying contractors and vendors of planned near-term cuts in capital and operating expenses over the coronavirus pandemic and low oil prices, and will announce the plans once they are final, company spokesman Jeremy Eikenberry said on March 22. "Based on this unprecedented environment, we are evaluating all appropriate steps to significantly reduce capital and operating expenses in the near term," Eikenberry said.

Exxon reduced production on March 21 at its refinery in Baton Rouge, Louisiana, and cut 1,800 contract workers on March 20, sources have told Reuters. The contract workers are employed by third-parties contracted by Exxon for refinery maintenance. Exxon is also expected to delay a final investment decision with its partners on a $30 billion liquefied natural gas plant in Mozambique.

Louisiana LNG developer gets loan extension to stay alive

(S&P Global Platts; March 23) –Tellurian negotiated an 18-month extension March 23 of an $87.5 million loan due in May in what is a lifeline as it tries to secure enough commercial support to build its Driftwood LNG project in Louisiana, which had been scheduled for an investment decision this year. The agreement came with stiff terms, including paying $2 million up front, an additional $3 million within a month, and issuing its lender 11 million company shares and accepting more expensive borrowing costs.

Tellurian will be able to reduce the amount of cash it must have in the bank, giving it more of a cushion to cover other obligations. The big question is whether, with the additional time, Tellurian will be able to navigate the extraordinarily challenging market environment exacerbated by the coronavirus pandemic and sign up more partnership agreements to help cover start-up costs of its liquefaction terminal and main feed gas pipeline. It has cut 38% of its staff as its shares have cratered amid the uncertainty.

"It's a very expensive but much needed Band-Aid," said Michael Webber, managing partner of investment research firm Webber Research & Advisory. "A broader, longer-term restructuring is still needed. … This buys them some time." New partnerships or investments tied to U.S. LNG projects have been reduced to a virtual standstill since the global health crisis started to accelerate. Falling oil prices have also contributed to the malaise in the LNG marketplace in terms of signing new long-term supply agreements.

LNG project developers face market uncertainty

(S&P Global Platts; March 18) - Trade-flow shifts and uncertainty caused by the coronavirus outbreak are weighing heavily on every aspect of the liquefied natural gas sector and, more broadly, on the outlook for near-term demand for gas. Longer-term challenges also are coming into clearer focus, as commercial support for new LNG projects under development dries up. Meanwhile, exports from existing terminals face the prospect of more cancellations or force majeure declarations from customers.

The interconnectedness of supply chains means that what happens in North America will have an impact on what happens in Europe and Asia, and vice versa. U.S. spot gas prices fell to multi-year lows on March 18, dropping to $1.654 per million Btu, the lowest since March 9, 2016, when Henry Hub settled at $1.575. The cheap gas prices reduce input costs for U.S. LNG export facilities. And weak demand has driven spot-market prices for LNG deliveries into Asia on March 17 at $3.538, as assessed by Platts.

Cheniere Energy, the largest U.S. LNG exporter, is no longer publicly targeting first-half 2020 for a final investment decision on expansion of its terminal in Corpus Christi, Texas, while the proposed Magnolia LNG project in Louisiana is seeking a lifeline through takeover of its parent company by a Singapore investor. NextDecade is mum on the status of its proposed Rio Grande LNG project, and Louisiana LNG project hopeful Tellurian has cut 38% of its workforce and is seeking a loan extension to allow more time to commercialize its Driftwood LNG project.

FERC suspends Louisiana LNG review pending missing information

(Kallanish Energy; March 19) - The Federal Energy Regulatory Commission has suspended its environmental review for a proposed $4 billion Gulf Coast liquefied natural gas project. Commonwealth LNG's planned liquefaction and export facility near Cameron, Louisiana, is on hold because of delays in providing additional information to the federal agency. FERC will release a revised schedule for the draft and final environmental reviews after the additional information from the developer is reviewed.

The plant would be built near the mouth of the Calcasieu River. Commonwealth LNG, based in Houston, filed its application with FERC last fall. The plant, designed to produce 8.4 million tonnes per year of LNG, would have six mid-size liquefaction trains, each capable of producing 1.4 million tonnes per year of LNG. The Audubon Society and others have raised concerns that the project could harm a shy and elusive marsh bird that is expected to be added to the endangered species list.

Cheap oil may draw business away from LNG in India

(Bloomberg; March 20) – India's liquefied natural gas buyers, which have helped soak up a global glut of the fuel, are reexamining their spot-market purchase plans as the collapse in oil prices may make oil-based fuels more attractive. At least two Indian importers may slow down their spot LNG purchases amid concerns industrial customers will shift toward low-cost oil products, according to traders with knowledge of the plans.

India's imports of LNG, which it buys mainly for industrial use, have boomed over the past year as record-low spot prices made it the fuel of choice. But since it also competes against oil products in some sectors, tumbling crude prices are erasing that edge. Oil has fallen about 60% this year as Saudi Arabia and Russia fight for market share and the coronavirus pandemic clobbers global oil demand.

"We expect a downside risk to India's LNG imports in 2020 due to a large drop in crude prices," said Abhishek Rohatgi, an analyst at Bloomberg New Energy Finance. "This could make fuel oil cheaper than spot LNG cargoes and reduce demand from industrial users such as the manufacturing sector." The shifting preference may mean sellers can no longer count on India to help absorb cargoes after China's LNG demand was dented by efforts to contain the virus. India imported a record amount of LNG last month.

Low prices will delay high-cost Asia-Pacific projects

(S&P Global Platts; March 19) - The oil-price collapse is triggering capital expenditure cuts by the Asia-Pacific's private and national oil companies, resulting in some of the region's largest exploration projects being put on hold or slowed significantly to save costs. Oil and gas exporters like Australia, Indonesia, and Malaysia, and even integrated NOCs in the region that invest for energy security needs, are mulling capex cuts, raising concerns about the future of local production that has been on the decline for years.

Cuts will be hard and deep, while growth will be off the table for all but the most financially strong, said Andrew Harwood, research director for Asia-Pacific upstream oil and gas at Wood Mackenzie. If all pre-final investment decision projects are deferred indefinitely, Asia-Pacific could see a reduction of 2 million barrels a day in oil supply by 2025, a reduction of more than 10% from pre-crash forecasts, Harwood said.

Asia's producers have not always been the most cost efficient, but their proximity to demand centers and the need for buyers to diversify their supplies from hotspots like the Middle East still made them feasible. Oil at under $30 per barrel changes this equation. Asian NOCs as a peer group require around $57 Brent to break even for 2020 and 2021 on a cash-flow basis, including all their businesses, and interest and dividend payments, said Maxim Petrov, Wood Mackenzie's senior corporate research analyst.

Putin signs tax breaks for Arctic oil and gas

(Reuters; March 18) - Russia announced fresh tax relief on March 18 for new liquefied natural gas projects in the Arctic, focused on those intended to come on stream from 2022, according to the text of the law signed by President Vladimir Putin. The zero-rate extraction tax on natural gas will primarily benefit independent gas producer Novatek, which plans to boost production in the region. Novatek is building its second liquefied natural gas export project in the Arctic.

The law also includes tax breaks for the Vankor group of oil fields being developed by Rosneft in the Arctic. “These laws will create favorable conditions for Arctic investments, the development of unique fields and consequently the accelerated development of the Northern Sea Route,” Prime Minister Mikhail Mishustin said last month.

The legislation also provides for a 5% tax on offshore production for the first 15 years, and petrochemical projects in the region will get their own boost with a new 0% mineral extraction tax. The Russian government also wants to intensify oil exploration in the country’s eastern Arctic, where it will introduce a 0% extraction tax rate for start-up of new projects. The legislation also covers transport and infrastructure development.