Oil and Gas News Briefs
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China is saving about $250 million a day with low oil prices

(Bloomberg; March 24) - As the U.S. finds itself in the unfamiliar position of lobbying for higher crude prices to help its oil and gas industry, China is enjoying what amounts to a major rebate from the price collapse just as it tries to recover from the coronavirus. The world's biggest oil importer is saving about $250 million a day after crude prices crashed this year amid dual demand and supply shocks. It's coming at an opportune time for its economy, which is expected to post the slowest growth since the end of the Mao era.

Should low prices last, China's benefits could include a boost in consumer spending and a stronger trade balance, as well as a source of cheap oil supplies for its strategic reserves. While all oil-consuming nations generally stand to gain from the crash, China is perhaps among the best placed. Unlike the U.S., which is both the top consumer and producer, China's oil industry doesn't account for such a sizable piece of the country's economic output, jobs, and debt--all of which are threatened by the price tumble.

Chinese leaders are starting to talk up an economic rebound as the spread of the disease appears under control. "It (low oil prices) is a comfort to an economy that is healing," said Li Li, a China-based analyst at commodities researcher ICIS. With a price drop to about $30 a barrel from $55 — last month's average before Saudi Arabia and Russia started a price war — China is saving about $250 million a day on oil imports, said Michal Meidan, director of China research at the Oxford Institute of Energy Studies.

China buying record volume of Russian oil

(Reuters; March 25) - China is buying a record 1.6 million tonnes of Russian oil (almost 12 million barrels) for loading at sea over the next four weeks, taking advantage of rock-bottom prices for Russia's flagship Urals grade combined with a collapse in demand for the crude in Europe, traders said March 25. The sales provide a lifeline to Russian firms struggling to sell oil in Europe, which has been hit hard by COVID-19. The deliveries could also indicate China is using the collapse in oil prices to fill its strategic reserves.

Analysts from Wood Mackenzie estimate China's strategic and commercial petroleum reserves could reach 1.15 billion barrels in 2020, equivalent to 83 days of oil demand, up from 900 million in 2019 and just 200 million barrels in 2014. Three traders in the Urals market said China's Unipec purchased Urals crude for loading from Baltic ports in the second half of March and in early April. "It's a great deal now even if you have to pay a lot for transport," a trader in the European market said. Urals cargoes loading from Baltic ports are trading at a discount of $3.50 to $4 per barrel to dated Brent.

"It is tough to sell Urals in Europe now ... and China is a desirable destination," a trader in the Urals market said. Urals' deliveries to China take up to two months and the long journey is economic if the discount is large enough and when forward-selling prices are higher than prompt-selling prices — for example, when the market indicates that oil will be worth more in May or June than this month.

Saudi Arabia oil-tanker charters drive up rates in a risky strategy

(Reuters; March 23) - Top exporter Saudi Arabia has chartered an armada of ships to flood the market with oil, but in the process has driven freight costs so high that refiners are reluctant to take the cargoes. That could leave the Saudis stuck with tens of millions of barrels in expensive ships at anchor as the coronavirus outbreak has destroyed global oil demand and knocked down international oil prices by more than half this year.

Shipping industry sources say Saudi Arabia has booked as many as 25 supertankers and provisionally chartered another 15 vessels to send oil to new and old customers to undercut Russia. Together the ships can carry 80 million barrels — almost equivalent to a day of global demand. The rush has sent tanker rates soaring, prompting the kingdom to tell its buyers it would abandon its usual policy of providing compensation for higher freight costs, making Saudi's deeply discounted oil prices less attractive.

It has yet to be seen whether the world biggest oil company has miscalculated or has a winning strategy to deprive its rivals of tankers. Aramco traditionally stores crude inland at its own hubs, and in major Asian, U.S., and European consuming centers where it has storage and pays a lot less than current tanker rates. Now it needs to store its oil at sea. The rush has pushed tanker rates to records of more than $200,000 a day the past 10 days versus an average of around $40,000 the past year. According to traders, the high rates require a 12-month premium of at least $15 per barrel to cover storage and make a profit. On March 13, the 12-month future-to-prompt premium was about $10 a barrel.

Spending on new oil and gas projects could fall two-thirds this year

(Reuters; March 23) - Spending on new oil and gas projects could fall by more than two-thirds this year if oil prices remain at current levels, Oslo-based Rystad Energy said March 23. Crude prices have dropped more than 60% since early January as demand fell due to travel and business restrictions to stem the spread of the coronavirus, while Russia and Saudi Arabia ended their 3-year agreement to curb production.

Investments are likely to fall to $61 billion, or by 68%, if the Brent crude price stays at around $30 a barrel with less of a drop to $82 billion in case the price rises to $40 a barrel, compared with $192 billion spent in 2019, Rystad said. Global benchmark Brent crude was trading around $29 on March 23. The majority of the producing North Sea oil and gas fields could make money at $30 a barrel of oil thanks to improvements made since the last market downturn in 2014-16, but most yet-to-be-approved projects are at risk, consultancy Wood Mackenzie said in a note on March 23.

"Upstream players will have to take a close look at their cost levels and investment plans to counter the financial impact of lower prices and demand," said Audun Martinsen, head of Rystad's energy service research. However, Rystad said it still expected some major projects, including ExxonMobil's Greater Liza development off Guyana, to be sanctioned this year.

Canada may need to cut back oil production as storage fills up

(OilPrice.com; March 23) - The economic hit from the COVID-19 virus and ongoing oil-price war have created such a large global supply surplus that Western Canada's oil production will need to be cut from April by some 11%, or 440,000 barrels per day, Rystad Energy estimates. The country is days away from running out of available storage capacity, according to the Oslo-based global energy analytical firm.

Western Canada has storage capacity of approximately 40 million barrels, and based Rystad's calculations more than 30 million barrels of crude oil and diluted bitumen is already held in storage. That volume is likely to edge toward the high end of capacity by the end of March under current production assumptions, the company said March 23.

As a result, Western Canada's oil production, which Rystad expected to reach some 4 million barrels per day in its pre-coronavirus estimate, will probably have to be cut by 440,000 barrels to balance local storage volumes at around 35 million barrels. Such a cutback incorporates at least a 75% reduction in crude-by-rail exports to 100,000 barrels per day, Rystad said. Alberta Premier Jason Kenney has raised the possibility of government-ordered production curtailments, but no reductions have been announced.

Oil sands operator shuts in half its production

(Bloomberg; March 24) - Record low prices for heavy Canadian crude have prompted one of the biggest operators in the oil sands to take the rare step of shutting production. Motivated by the "extremely low" prices, Suncor Energy announced on March 24 that it will shut in one of two production lines at its 2-year-old, 194,000-barrel-a-day Fort Hills oil sands mine. The company also is delaying start-up of its MacKay River oil sands wells to May after operations were halted in December due to a malfunction and fire.

The move comes as the coronavirus pandemic slashes worldwide oil demand just as Saudi Arabia ramps up oil production in a price war with Russia, sending global oil benchmarks to their lowest prices in almost two decades. Western Canadian Select, the oil sands benchmark, has fallen below $8 per barrel, a record low. The value of the bitumen itself, excluding the light condensate that's added so that the heavy crude can be pumped through pipelines, was valued at just $3.83 a barrel.

Oil sands wells and mines are built for billions of dollars to last for decades. They are rarely shut because many of their operating costs are fixed and, for the wells, leaving the reservoirs cold for an extended period of time could cause damage. Suncor and its partners Total and Teck Resources agreed to operate the single processing stream at Fort Hills, Alberta, at full utilization to maintain cash flow amid low prices for bitumen.

Rising wastewater treatment costs add to Pennsylvania's oil woes

(Pittsburgh Post-Gazette; March 23) - "This is monumentally bad," Dan Weaver, executive director of the Pennsylvania Independent Oil & Gas Association, said of collapsing oil prices. "The industry will not look the same coming out of this as they did going in. It just depends on how long it lasts." At the two refineries that process Pennsylvania Grade Crude, the price paid March 18 was as low as $19.37 a barrel, about $3 below the U.S. benchmark West Texas Intermediate.

Pennsylvania's oil industry was already precarious. Prices never fully recovered from a low point in early 2016. In the meantime, one of the biggest expenses — wastewater management — has only gotten more costly. In 2010 there were 34 treatment facilities in Pennsylvania that could take the produced water, or brine, that comes to the surface along with oil, said Mark Cline, who with his brother operates small-producer Cline Oil. Now there are about seven treatment facilities, and that changes daily. "We don't have enough capacity to clean even a quarter of the water we produce a day," Cline said.

With oil in the $20 range, most operators would lose money if they kept producing, just based on the cost of hauling oil and brine, Weaver said. Cline said the conventional oil industry, which is largely clustered in 19 northwestern Pennsylvania counties, needs about $60 a barrel to break even. Whether producers can keep pumping oil amid the price drop depends to some extent on how much brine their wells produce and whether they have an economic way of dealing with the wastewater, said Joe Thompson, whose family owns Devonian Resources, which produces oil, gas, and natural gas liquids.

Price war hits Latin American producers struggling to cover costs

(Reuters; March 24) - A price war between the world's oil powerhouses is leaving many producers in Latin American struggling to cover production costs, boosting chances of output cuts and investment delays in coming months. Global oil benchmarks have had their steepest declines in decades amid falling demand during the coronavirus epidemic and surging supplies after Russia and Saudi Arabia failed to reach a deal to curb output.

"Latin America's flowing production is over 7 million barrels per day. At current prices, we estimate half is non-economic, taking into account all costs, including transportation and taxes," said Ruaraidh Montgomery, of oil research firm Welligence. On March 18, Mexico's Maya crude slid to its lowest level in 18 years, with sales to the U.S. Gulf Coast closing at below $13 per barrel, according to S&P Global Platts.

Latin America's average cost for lifting oil is close to $13, excluding indirect costs and taxes, according to a Reuters calculation based on data from state-controlled Ecopetrol from Colombia, Petroecuador from Ecuador, Mexico’s Pemex, and Brazil’s Petrobras, as well as experts watching Venezuela's PDVSA. Until last month, prices covered those costs. But the price war is drying up spot sales of Latin American heavy grades. Fuel demand in the U.S., the main market for Latin American crude, has slumped during the coronavirus shutdown. The price slump could slam countries already struggling due to output inefficiencies and heavy government takes such as Mexico and Ecuador.

Chevron cuts capital spending by 20%

(Reuters; March 24) - Chevron will slash capital spending by $4 billion this year and suspend share buybacks, the latest oil company to cut costs in the face of an unprecedented slide in oil prices. Oil has crashed by more than 60% since January, hit by global demand destruction from the coronavirus pandemic and a price-and-production war between Saudi Arabia and Russia.

The second-largest U.S. oil firm on March 24 joined refining giant Phillips 66, which cut its 2020 spending forecast by about 18%. Chevron said it would spend $16 billion instead of a planned $20 billion this year, including halving its spending in the Permian Basin, the top U.S. shale field. It now expects to pump about 125,000 fewer barrels of oil and gas per day in the Permian Basin by the end of this year, down 20% from earlier plans. It had expected output to exceed 600,000 barrels per day this year.

It's the first indication from an oil major of how sharply it would pull back spending in the Permian, output from which has helped the U.S. become the world’s top oil producer. Chevron will cut $2 billion from its Permian spending, from a planned $4 billion this year. Shell has said it would cut spending by $5 billion. ExxonMobil, the largest U.S. oil company, has not released its new spending plan but said cuts would be “significant.”

LNG buyers increasing shun contracts for cheaper spot market

(S&P Global Platts; March 24) - Unnerving volatility in crude oil prices may increasingly prompt liquefied natural gas buyers to drag their feet in signing term contracts and instead boost dependence on spot cargoes, a trend, that if sustained, could squeeze new LNG export projects and result in painful development delays. Analysts told S&P Global Platts that project owners may find it hard to move ahead with plans as per schedule because the low-price environment will result in fewer offtake commitments.

"LNG projects requiring financing will find it that much harder to find backers, particularly if long-term contracts continue to elude them," said Ira Joseph, global head of gas and power analytics at Platts. "Delays will inevitably occur on new projects scheduled to start in the 2024-2027 time frame." LNG export projects are particularly important for U.S. gas producers because they are a major source of demand growth and also critical to oil production growth, as the wet gas needs an outlet, Joseph said.

"We do see some potential for the oil-market crash to protract price negotiations between (LNG) buyers and sellers, which could result in some FID (final investment decision) delays, pushing back project start-ups," said James Waddell, senior global gas analyst at Energy Aspects. As spot LNG prices hover at record lows and oil-indexed LNG prices are on course to weaken in the coming months if low crude prices continue, the odds are in favor of LNG buyers at the moment. "The dynamics are changing in favor of spot contracts," said an LNG trader with a leading Asian oil and gas firm.

Sempra targets second-quarter FID for Mexico LNG export terminal

(Reuters; March 24) – Sempra Energy said March 24 it is now targeting a final investment decision in the second quarter of 2020 to build the first phase of the Costa Azul liquefied natural gas export plant in Baja California, Mexico. The decision comes at a time when most of the LNG industry is cutting back on growth as global demand for gas is expected to decline due to the coronavirus outbreak. The company, however, is confident in long-term demand for the fuel, said Sempra LNG President Justin Bird.

Last month, Sempra said it planned to make a final investment decision to build two LNG export plants in 2020: Costa Azul in the first quarter, and Port Arthur in Texas in the third quarter. At Costa Azul, Sempra said Energia Costa Azul LNG has non-binding 20-year agreements with units of France’s Total as well as Japan’s Mitsui and Tokyo Gas to buy about 0.8 million tonnes per year of LNG each. The first phase of Costa Azul is designed for one liquefaction train at 2.4 million tonnes per year capacity.

Sempra said Costa Azul could ship its first cargoes in 2023. The project will be built next to its 12-year-old LNG import plant. At Port Arthur, Sempra said talks are ongoing with units of Saudi Arabian Oil to buy 5 million tonnes per year of LNG and invest 25% equity, and with Polish Oil & Gas Co. to buy 2 million tonnes per year. The initial phase of Port Arthur is expected to include two liquefaction trains at 11 million tonnes annual capacity. Sempra's Cameron LNG terminal in Louisiana started exports in May 2019.

LNG project north of Vancouver asks for permit extension

(Squamish Chief; Squamish, BC; March 24) - Construction of the C$2 billion Woodfibre LNG project north of Vancouver has been delayed in part due to COVID-19, the developer said March 24. The company is applying to the provincial Environmental Assessment Office for an extension to its environmental certificate, which is set to expire in October. The company is asking for a five-year extension. Construction, expected to begin this summer, is now expected to start summer 2021, Woodfibre said.

The reasons for the delay include uncertainty and work stoppages caused by COVID-19, such as the shutdown of a fabrication yard in China that was building components for the liquefied natural gas plant, proposed at the site of a former pulp mill. Another issue is that a U.S. construction company contracted for marine work at the terminal filed for bankruptcy in January, slowing down its ability to commit to a work schedule, according to Woodfibre LNG, which is owned by a Singapore investment company.

The request to extend its provincial approval is only a pause, not a sign that the project is not going ahead, said Rebecca Scott, communications director for Woodfibre LNG. "We are continuing to work with our Indigenous and commercial partners to meet all of our pre-construction commitments," company president David Keane said in an email. The project reportedly also is still working to sign up buyer, after losing a potential customer in China last summer.

India's LNG importers issue force majeure to stop deliveries

(Reuters; March 25) - Indian liquefied natural gas importers have started to issue force majeure notices as domestic gas demand slumps and as port operations in the country get hit by a lockdown to curb the spread of coronavirus, sources told Reuters. "Demand has reduced drastically and it is likely to go down further," a source at GAIL (India) said. "Only fertilizer, power and refineries are running at partial loads. Other local buyers have already issued force majeure," leaving less demand, the source said.

Energy traders join the move to working from home

(Reuters; March 23) - From banks of screens and giant phones in the office, energy traders worldwide are adapting to a laptop in the bedroom — and it's going surprisingly well. Working from home has become the norm in the oil trading hubs of Singapore, London and New York as governments encourage physical distancing to curb the spread of coronavirus. While some energy companies have long had facilities in place to allow off-site access to trading platforms and other technology, others are rapidly installing equipment and communication systems for the bulk of their trading teams.

“Working from home [and] having a conference call with kids and dogs in the background [have] become the new norm,” said one Singapore-based LNG trader. A dozen traders canvassed by Reuters reported few major problems once the right equipment had been secured — apart from increased snacking — with slower internal communications and a lack of face-to-face time with colleagues the main complaints.

The move to home working has helped speed up the adoption of browser-based communication applications such as Speakerbus’ ARIA and Cloud9 Technologies, which replace traders’ traditional phones, known as turrets that give access to key contacts at the push of a button and record the conversation. Both systems use cloud-based technologies that give traders the ability to communicate with other companies in a secure and compliant way without having to lug home the bulky turret.