Oil and Gas News Briefs
Compiled by Larry Persily
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Alberta steps up with $7.5 billion commitment for Keystone XL oil line

(Calgary Herald; March 31) - The long-awaited Keystone XL pipeline is finally moving ahead. In the latest major twist in the project's long journey, the Alberta government is set to take an equity stake and provide a loan guarantee for the venture during a period of turmoil in global energy markets, with a total financial commitment of about C$7.5 billion. On March 31, the provincial government will formally announce it's going to acquire a stake in the cross-border oil line, making a C$1.5 billion equity investment.

It will also provide a C$6 billion loan guarantee to ensure TC Energy is able to finance construction, said Premier Jason Kenney. "We are investing in the Keystone XL pipeline … in order to begin construction immediately on April 1. Without this investment, we are certain that Keystone XL would not be built," he said. "In part because of the chaos in global energy markets, private-sector capital is not available to finance the project. We can't wait any longer. … It is an investment in our future when we so desperately need one right now." Kenney said the expected date of commissioning is June 2023.

The project has been on a marathon since it was first proposed by TransCanada (now named TC Energy) in 2008 and was initially expected to be built by 2012. Instead it has faced regulatory, political, and legal obstacles. In 2015, then-President Barack Obama rejected the project, although President Donald Trump later approved it. As proposed, Keystone XL will ship 830,000 barrels of oil per day from Western Canada to Nebraska, where it will connect with existing pipelines to transport Alberta crude to U.S. Gulf Coast refiners, helping to relieve Western Canada's shortage of pipeline capacity to market.

Commodities economist says oil demand could fall almost one-third

(Reuters; March 30) - Global commodities trader Trafigura's chief economist said oil demand could fall by more than 30 million barrels a day in April, as the global economy grinds to a near halt due to the coronavirus. The forecast, the highest yet from a senior industry forecaster, equates to around a third of the world's daily oil consumption.

Saad Rahim, chief economist at the Geneva-based trader, said a battle for market share between Saudi Arabia and Russia had become increasingly irrelevant now that some 3 billion people are under lockdown worldwide to prevent the spread of COVID-19 — with no end in sight. Rahim pegged global refinery-run cuts at around 7 million to 8 million barrels per day, but said they could rise to 12 million to 13 million in the next two or so weeks as people and goods move around even less.

"In Europe and some parts of the United States, traffic is at 10% of the normal level in major metropolitan areas like San Francisco, Paris, and Italian cities," he said, while airline travel in the United States is down 90% from last year. Oil producers will have to start cutting back output more as storage will run out next month. "If oil demand destruction reaches 30 million barrels per day, that means 1 billion barrels of crude that needs to be stored in just one month. Globally there's only 800 million barrels of onshore storage plus another 100 million to 150 million of floating," Rahim said.

Russian oil companies in good position to withstand price collapse

(Financial Times; London; March 29) - Two weeks after Igor Sechin engineered the end of an oil production pact between Russia and Saudi Arabia, sparking a price war that cut his own company's valuation by 40%, the boss of Rosneft was unrepentant. "There is no need to dramatize these things," said Sechin, a close ally of President Vladimir Putin and chief executive of Russia's state oil company. "Things are shaken up, but what consequences will this have? The [oil] market will be corrected."

As oil demand has fallen because of the coronavirus pandemic, increased production by Russia and Saudi Arabia has caused prices to drop by over half in three weeks. Sechin believes Russia can make life difficult for rivals and help it expand its market share. In the short-term, at least, he has reason to be confident. Russia's biggest oil companies are well positioned to withstand low prices for the next couple of years, given their advantages over global rivals, and may still be able to turn a profit even at $15 a barrel.

The resilience of Russian oil companies to lower prices is partly due to attempts by the U.S. and Europe to hurt them. Years of western sanctions have restricted their access to foreign technology and capital, and the majority of their costs and liabilities are now in rubles rather than dollars. As oil prices fall, the ruble generally weakens, increasing their earnings per exported barrel. And Russia has a tax system that reduces levies in line with oil prices. It's designed so that at less than $25 "the industry goes into self-preservation mode," wrote Alexander Burgansky, an analyst at Renaissance Capital.

'Oil market has seized up' due to oversupply, lack of storage capacity

(Bloomberg; March 29) - The global oil market is broken, overwhelmed by an unmanageable surplus as lockdowns cascade through the world's largest economies. Onshore tanks in many markets are full, forcing traders to store excess oil in idle supertankers. Refineries are starting to shut down because nobody needs the fuels they produce. In physical oil markets, barrels are already changing hands for less than

$10, and in a few landlocked markets producers are paying buyers to take away their crude.

“The physical oil market has seized up,” said Gary Ross, and chief investment officer of Black Gold Investors. “The logistics are struggling to cope because we are facing a catastrophic loss of demand.” Oil traders say it’s likely to get worse this week. The root cause is an accelerating plunge in consumption that’s without precedent since a steady flow of oil became essential to the global economy more than a century ago.

The problem is a lack of storage. With demand running 20 million barrels a day below supply, there won’t be enough storage capacity in two or three months. The world is running out of storage options because the shutdown of vast swathes of the economy has been catastrophic for demand. The collapse in air travel has cut jet fuel use by up to 75%, or 5 million barrels a day. “Demand destruction is unprecedented,” said Ben Luckock, co-head of trading at Trafigura Group, the world’s No. 2 independent oil trader.

Falling prices will force banks to slash credit lines for oil companies

(Reuters; March 30) - U.S. energy producers face the threat that banks will slash their credit as the crash in oil prices means the asset backing their main loan facility — crude reserves — is worth less than half of what it was a month ago. The oil price collapse has crushed U.S. energy companies, sending valuations spiraling and squeezing financing options, as they face a likely 20% drop in worldwide oil demand in the coming quarters due to the coronavirus pandemic. U.S. crude has fallen to about $20 a barrel.

For the shale industry, the twin supply-and-demand shocks could not come at a worse time. The industry’s key financing tool — loans backed by proven oil and gas reserves — is facing a semi-annual pricing review. Banks use U.S. crude prices to evaluate reserves, and with oil falling from $61 a barrel on Jan. 1, those institutions could cut borrowing lines by anywhere from 25% to 50%, according to interviews with more than a dozen industry and financial sources.

“I think it is fair to say that U.S. shale is about to confront the biggest liquidity crunch in its history,” said Shaia Hosseinzadeh, managing partner at investment firm OnyxPoint Global Management. The correlation between falling oil prices and smaller loan size is not exact. A company’s resources fluctuate as it discovers and extracts oil, reshaping the collateral behind the loan, while different banks providing funds have alternative values for crude, which adjusts the calculation.

Pipeline operators start asking oil producers to cut back

(Bloomberg; March 28) – U.S. pipeline operators have started asking oil producers to voluntarily ratchet back their output in the clearest sign yet that a growing glut of crude is overwhelming storage capacity. Plains All American Pipeline, one of the biggest movers of crude in the U.S., sent a letter this week asking its suppliers to scale back production. A Texas oil regulator said March 28 that drillers were getting similar notices from other pipeline operators.

The messages signal the oil market is fast approaching the moment traders have been warning about — when crude supplies overflow storage tanks and pipelines as the coronavirus pandemic drags down oil demand by the most in history. “We are sending this proactive request to our suppliers to ask that you take steps to reduce oil production in response to the pandemic,” Plains said in the letter. The company sent a separate letter requiring customers to prove they have a buyer or a place to offload the crude they’re shipping. The idea is to prevent anyone from parking oil in pipelines.

There already were signs that North America’s storage system was nearing its limit. On March 27, prices for physical delivery of several key crude grades in North America plunged to the lowest levels in decades. West Texas Intermediate crude in the heart of the Permian plunged to $13.01 a barrel, the lowest since 1999. Trading house Mercuria Energy bid just 95 cents for Wyoming Asphalt Sour, a dense oil used mostly to produce paving bitumen, and said the same barrel was bid at below zero earlier this month.

Permian shale oil producers ask Texas regulators to consider limits

(Wall Street Journal; March 30) - Two leading shale producers in America’s hottest oil field have asked Texas regulators to consider curtailing crude output in the state as the industry grapples with collapsing demand and plunging prices. Parsley Energy and Pioneer Natural Resources sent a letter March 30 requesting that the Texas Railroad Commission hold a hearing on the idea of curbing production, something the state hasn’t done since the 1970s. The two are among the largest Permian Basin producers.

Matt Gallagher, Parsley’s chief executive, warned that without additional regulation, many producers likely would have to shut down their wells soon. “If we keep producing until we hit a wall, with no proactive decisions, we’re going to see single-digit prices across the country,” Gallagher said, adding that an aggressive response by U.S. drillers to curtail production could encourage rivals Saudi Arabia and Russia to do the same.

It isn’t clear whether the three-member regulatory commission is likely to take steps to limit production. Just one of the commissioners, Ryan Sitton, has publicly supported the idea. Sitton tweeted March 30 that the commission should hold a hearing on the matter as soon as possible. “You either proactively manage or you simply reactively manage,” he said in an interview. Chevron and ExxonMobil, two of the largest producers in the Permian, are opposed to any mandated cuts to oil production, according to sources.

Some believe U.S. shale will recover — 'rocks don't go bankrupt'

(Bloomberg; March 29) - The American shale industry shocked the world with its rebound after the 2014-2016 oil-market bust, setting records for output that pushed the U.S. to the top spot among oil-producing countries. It could happen again, though the comeback trail would be steep and long. U.S. production will take a bigger hit from the current market meltdown than it did last time. As many as 70% of the 6,000 shale drillers may go bankrupt, and one-third of shale-patch workers are expected to lose their jobs. Wall Street, which financed the last boom, has cut off the cash spigot.

But some experts are saying the future, however far off, will be better. They're echoing the view that America can shock the oil world again. The U.S. shale industry is in a position, with its infrastructure, its ability to ramp up quickly and its plentiful reserves, to rise from the ashes stronger than ever. When the dust settles in the Permian and other U.S. shale fields, the survivors will be leaner and more tech savvy, said Daniel Yergin, a Pulitzer Prize-winning oil historian and IHS Markit vice chairman.

That means lower production costs and a greater ability to respond to the next price rebound will lead to the last thing Moscow and Riyadh want — another U.S. shale boom. "Companies go bankrupt, but rocks don't go bankrupt," Yergin said. "When this all shakes out, there will be other people to develop shale." Fereidun Fesharaki is a shale believer, too. The chairman of global energy consultant FGE said he also expects the price squeeze to force explorers to become more efficient and cost-competitive.

Oil cutbacks could result in higher prices next year

(Reuters; March 30) - The coronavirus pandemic and plunge in crude prices will result in a leaner, stronger oil industry but raise the risk of shortages down the line, Goldman Sachs analysts said March 30. Crude prices suffered another sharp fall on March 30 as the pandemic worsened and the Saudi Arabia-Russia price war showed no signs of abating. Refiners across the world have been forced to halt operations. "If pipelines get clogged up as refineries shut down, inventories cannot build, reducing the cushion and creating a very quick risk reversal toward oil shortages," Goldman said in a note.

This would in turn cause an oil shortage, pushing prices above the Wall Street bank's $55 a barrel target for 2021, it said. "This will likely be a game changer for the industry," the bank said. "Big Oil will consolidate the best assets in the industry and will shed the worst. ... When the industry emerges from this downturn, there will be fewer companies of higher asset quality, but the capital constraints will remain."

Goldman Sachs added, “Paradoxically, this will ultimately create an inflationary oil supply shock of historic proportions because so much oil production will be forced to be shut in.” The bank also said demand from commuters and airlines, which account for about 16 million barrels per day of global demand, may never return to previous levels.

Analysts expect U.S. to lose top spot among world’s oil producers

(CNBC; March 30) - The U.S. is all but guaranteed to lose its hard-earned spot as the world’s No. 1 oil producer this year amid the recent price crash, vanishing demand and a plunge in capital investment, energy experts say. That could mean potentially enormous implications for U.S. foreign policy, as administrations have for decades viewed energy security and national security as being inexorably tied.

“If we continue where we are with these low prices, we’ll see a big decline in U.S. oil production. It will no longer be number one,” Dan Yergin, energy expert and vice chairman of IHS Markit, told CNBC’s “Capital Connection” on March 30. The U.S. became the top oil producer globally in 2018, surpassing the output of Saudi Arabia and Russia thanks to the shale oil boom.

“I think it’s almost a guarantee that this year it (the U.S.) will certainly lose that position,” Edward Bell, commodities analyst at Dubai-based bank Emirates NBD, told CNBC. “And it might happen probably a lot faster than we anticipate.” The current rate of rig closures in the U.S. means an estimated 750,000 barrel per day decline from the second quarter onward, Bell predicts — taking the country down from an output of some 13 million barrels per day at the start of the year. “Where we are with prices now, we’re going to see a major decline in U.S. production,” Yergin stressed.

Africa’s oil-producing nations at risk in price war

(Reuters; March 30) - Collapsing oil prices have left African producers facing not only lost revenue when they most need it to tackle the coronavirus, but also a fall in hard-won market share they may never regain. The continent's producers such as Nigeria, Angola and Algeria cannot compete with the lower production costs of Saudi Arabia and Russia, which are flooding the market with oil in their fight over market share.

In a sign of their desperation, the Republic of Congo's oil minister wrote to OPEC secretary general Mohammad Barkindo on March 20 calling for an urgent meeting to find a way to keep member nations from sinking into recession. But while desperate for OPEC+ (the Organization of the Petroleum Exporting Countries plus Russia) to ride to the rescue, Africa's oil producers have little leverage over them. "They have no power," one Nigerian oil industry source told Reuters. "All they can do is ask."

Although non-OPEC nations such as Britain, Norway, and the United States all have relatively high-cost production, their diversified economies mean they are not dependent on oil as much as some African nations. As well as hitting already tight budgets, the oil price drop had led oil majors to cut billions from spending plans. The longer-term impact for the comparatively costly African fields could be far more painful. In Nigeria, for instance, production is forecast to fall by 35% without offshore field investments.

Norway's newest offshore field will reach 470,000 barrels a day in May

(Bloomberg; March 29) - A torrent of oil from the giant Johan Sverdrup field may not be what the market needs right now, but it's a welcome boost for Norway and the companies involved. The North Sea field's first phase will peak at 470,000 barrels a day in early May, state-controlled Equinor said on March 30. That's at least a month early and 30,000 daily barrels more than forecast.

The news coincides with a crash in the oil market with Brent crude descending to 17-year lows near $23 a barrel. But Sverdrup is profitable at less than $20, and contributes vital cash flow to Equinor and other owners including Lundin Petroleum and the Norwegian government as they contend with the fallout from the coronavirus pandemic.

Sverdrup has so far been a well-timed project. It was discovered in 2010, as western Europe's biggest oil-producing nation was expecting output to dwindle. The venture was greenlighted in 2015, providing a lifeline to oil-field service companies ravaged by a slump in crude, while the field's owners got bargain prices for supplies. The field started output ahead of time in October, with oil hovering around $60 a barrel. Sverdrup will have operating costs of under $2 a barrel once it reaches first-phase maximum output.

Fracking sand mines hit hard by oil-price crash, drilling cutbacks

(Minneapolis Star Tribune; March 28) – Minnesota frac sand miner Jordan Sands in North Mankato was pushed into receivership recently after its banker declared a loan default. A few months earlier, the state's largest frac sand producer, the Kasota mine, was idled. In western Wisconsin, 10 frac sand processing plants have closed over the past 18 months. That's one-third of the industry's dry sand milling capacity, said Kent Syverson, a geology professor at the University of Wisconsin-Eau Claire.

And all of this was before oil prices collapsed as the economic disruption caused by the coronavirus pandemic cratered global demand at the same time Russia and Saudi Arabia decided to flood the market with crude. Sand is used in the hydraulic-fracturing extraction of oil and gas. "The situation has gotten worse," Syverson said. "Now we have an oil-price crash, and some [oil producers] are cutting back their fracking and drilling budgets." The Upper Midwest's frac sand industry has been shellacked since 2018, first by a southward migration of sand mining operations, then by a supply glut.

The sand surplus is "approximately double the current demand," Jordan Sands CEO Scott Sustacek said in a court affidavit filed March 2, just before oil prices plummeted. With the benchmark U.S. oil at about $22 — down from the mid-$50s in January — shale operators from North Dakota to Texas will lose money on new wells. Publicly traded frac sand firms with mines in Wisconsin and Minnesota have been crushed. A court filing shows that Jordan was selling sand for about $20 a ton at the start of March — a price below the firm's break-even point — compared to an average of $40 in 2016.

U.S. natural gas stockpiles headed toward record high

(Reuters; March 29) - U.S. natural gas stockpiles will hit an all-time high in 2020 as drillers keep producing record amounts even though demand is expected to slump during lockdowns to stem the spread of the coronavirus. Before the outbreak, analysts projected the U.S. would export much of its surplus gas to other countries. But liquefied natural gas suppliers are flooding the market with excess cargoes amid falling demand, and analysts expect buyers to cancel more U.S. cargoes in coming months.

Analysts polled by Reuters project that U.S. gas storage will reach a record 4.078 trillion cubic feet at the end of the summer (April-October) injection season as the pandemic cuts demand before producers can reduce output. That is still well short of U.S. capacity of 4.268 tcf in the Lower 48 states, according to the most recent federal data in 2018. The oversupply has helped drive down U.S. benchmark Henry Hub prices, running about $1.75 per million Btu this past week, the lowest in almost 25 years.

The slump in demand headed into the seasonally less active summer means prices are set to drop further. Meanwhile, the combination of reduced demand out of Europe and Asia, and fewer new U.S. liquefaction units entering service, means the rapid pace of U.S. LNG export growth over the past few years will slow. Even before the coronavirus spread, global gas prices were already trading at their lowest in years as the U.S.-China trade war pressured economic growth while mild weather reduced heating demand in North America, Europe, and Asia and filled European gas stockpiles to historic highs.

Shell pulls out of proposed Louisiana LNG project

(Reuters; March 30) - Shell has pulled out of a proposed liquefied natural gas export project in Louisiana following the recent crash in oil and gas prices that has forced the company to make deep spending cuts. Shell said that "given current market conditions" it will not proceed with the Lake Charles project, a 50-50 venture with U.S. midstream company Energy Transfer.

The project, one of a number of large LNG facilities planned in the wake of the U.S. shale boom over the past decade, proposed expanding on a 1982 underused import and regasification facility and building liquefaction and export capacity for 16.45 million tonnes per year. “Whilst we continue to believe in the long-term viability and advantages of the project, the time is not right for Shell to invest,” Maarten Wetselaar, head of Shell’s Integrated Gas and New Energies division, said in a statement.

Energy Transfer said it will take over development of the project, which has faced difficulties before the 60% collapse in oil prices due to the coronavirus and a price war between top crude producers Russia and Saudi Arabia. Last November, Shell asked U.S. regulators to extend the time to complete the project to 2025 due to a weaker outlook for LNG prices amid a global oversupply.

U.S. LNG cargo headed toward China; would the first in a year

(Reuters; March 30) - A liquefied natural gas tanker that loaded a cargo from Louisiana is heading to China, the first shipment since March 2019, according to shiptracking data from Refinitiv Eikon and Kpler on March 30. The tanker SK Resolute loaded the cargo from the Cameron LNG terminal on March 22 and was originally headed to Panama, according to shiptracking data from Refinitiv Eikon and data intelligence firm Kpler.

It changed its destination to Tianjin in China on March 28 and is expected to arrive at the Chinese port on April 28, the data showed. “It’s heading to Tianjin, but taking a farther route via the Cape of Good Hope which takes around 38 days compared with via the Panama Canal which takes around 25 days,” said Rebecca Chia, an analyst at Kpler, adding that there is still potential for the tanker to divert. If the gas lands in China, it would be the first since China raised tariffs on U.S. LNG imports to 25% last year.

China announced last month that it would grant exemptions on retaliatory duties imposed against 696 U.S. goods — including LNG — after both sides reached a first-phase trade deal that took effect on Feb. 14.

Sovereign wealth funds could offload $225 billion in equities

(Reuters; March 29) - Sovereign wealth funds from oil-producing countries mainly in the Middle East and Africa are on course to dump up to $225 billion in equities, a senior banker estimates, as plummeting oil prices and the coronavirus pandemic hit state finances. The rapid spread of the virus has ravaged the global economy, sending markets into a tailspin and costing oil and non-oil based sovereign wealth funds around $1 trillion in equity losses, according to JPMorgan strategist Nikolaos Panigirtzoglou.

His estimates are based on data from sovereign wealth funds and figures from the Sovereign Wealth Fund Institute, a research group. Sticking with equity investments and risking more losses is not an option for some funds from oil-producing nations. Their governments are facing a financial double-whammy — falling revenues due to the collapsing oil price and rocketing spending as they rush out emergency budgets.

Around $100 billion to $150 billion in stocks have likely been offloaded by oil-producer sovereign wealth funds, excluding Norway's fund, in recent weeks, Panigirtzoglou said, and a further $50 billion to $75 billion will likely be sold in the coming months. "It makes sense for sovereign funds to frontload their selling, as you don't want to be selling your assets at a later stage when it is more likely to have distressed valuations," he said. On March 26, Norway’s sovereign wealth fund said it had lost $124 billion so far this year.