Oil and Gas News Briefs
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Saudi Arabia announces additional cut of 1 million barrels per day

(Bloomberg; May 11) - Saudi Arabia on May 11 announced a surprise move to slash oil output to the lowest in 18 years as it tries to spur the recovery from an energy crisis that has devastated the kingdom's finances. Just hours after unveiling a slew of dramatic budget austerity measures, Saudi Arabia said it would cut oil output by 1 million barrels a day on top of what it had already agreed to as part of the OPEC+ deal. Oil prices rose, and Kuwait and the United Arab Emirates followed up with extra cuts of their own.

"We have to be ahead of the curve," Saudi Oil Minister Prince Abdulaziz bin Salman told Bloomberg News. "The voluntary cuts will further expedite the rebalancing process." It's a sign of the urgency in Riyadh to stabilize the oil market as rock-bottom prices force the kingdom to impose deep spending cuts and triple its value-added tax. And it marks the latest step in Saudi Arabia's retreat from the price war it started in March when it moved to flood the market with cheap crude after talks with OPEC+ allies broke down.

But for some, the production cuts are too late: A large number of oil tankers loaded weeks ago with Saudi crude are about to hit U.S. shores, exacerbating the supply glut that has driven down prices. Riyadh aims to pump just under 7.5 million barrels a day in June, compared with an official target under the April OPEC+ agreement of just under 8.5 million barrels a day. If Saudi Arabia makes good on its new pledge, its production will drop to the lowest since mid-2002, according to data compiled by Bloomberg. At the height of the price war with Russia, Saudi Arabia produced 12.3 million barrels a day.

U.S. producers expand deep cuts to oil output

(Bloomberg; May 11) - Continental Resources, the oil explorer founded by billionaire Harold Hamm, is curtailing about 70% of its output in May in one of the most aggressive production cuts announced to date among U.S. producers. The Oklahoma City-based company, which doesn't typically hedge its production, withdrew its 2020 earnings guidance and is dropping rigs, the driller said May 11 in its first-quarter earnings report.

As crude prices remain depressed, producers are moving beyond laying down rigs and taking the once-rare step of scaling back existing output. Continental initially planned to cut output by 30% to match the collapse in demand caused by the COVID-19 pandemic but has since doubled down on that efforts. EOG Resources, the world's second-largest independent oil explorer by market value, said last week it is curtailing about one-fourth of its production and canceling almost 40% of new wells it had planned for this year.

Multiple reasons why some U.S. shale drillers keep producing

(Bloomberg commentary; May 11) - The economics of each U.S. shale well — and the companies that own them — differ enormously. Imagine a well tapping one million barrels of oil equivalent, 75% of it crude oil, the rest gas. Benchmark prices: $30 oil and $2.50 gas, translating to, say, $27 and $2 at the wellhead. That implies total revenue of $23.3 million. Royalties and severance taxes take about $7 million; operating expenses and overhead take $7 million. That leaves $9.3 million versus $9 million spent drilling and completing the well. Factor in time value of money, and that well is underwater.

But there are reasons a producer might keep drilling anyway. Rigs are often contracted for months at a time. For example, Helmerich & Payne, a leading rig provider, reported roughly a third of its U.S. onshore rig fleet operated under fixed-term contracts at the end of March. Contracted pipeline space, too, must be paid for whether or not barrels flow through it. Taking a company's activity down to zero is also traumatic for workers and, like a shut-in well, makes it harder to crank back up. Hedging (preselling the oil or gas before it is produced), shields against low prices and is a contractual commitment.

Another idea, however, is to wait for higher prices — conserving barrels, rather than pushing them into a glutted market at low prices. As EOG Resources said May 8, oil kept underground is "low-cost storage." But companies carrying more debt may be stuck on the treadmill, without the option to hold back. Covenants demand cash flow today even if that means destroying value over time. This is a reminder of why the industry finds itself vulnerable in the first place: managing to production rather than value, and thereby dragging down prices by putting more uneconomic oil in the market.

Federal Reserve change to loan program helps oil and gas companies

(Pennsylvania public radio; May 11) – Pennsylvania's oil and gas producers could benefit from a change to a Federal Reserve loan program aimed at helping businesses during the coronavirus pandemic. Critics have attacked the changes, calling them a "stealth bailout" for heavily indebted oil and gas companies. The changes were made in late April to the Fed's Main Street Lending program, part of the coronavirus relief bill passed by Congress in March. The $600 billion loan program is intended to help small- and medium-sized businesses that were in good financial shape before the pandemic.

When the Fed rolled out the program, it prohibited companies from using the loans to pay off debts. Oil and gas companies and their advocates asked the central bank to loosen up those guidelines. The Fed's final guidelines gave those companies their wish

— companies could use the loans to pay off some types of debt. Opponents questioned whether the government should be throwing a lifeline to the fossil fuel industry.

The loans are risky because many of the companies were doing poorly before the pandemic, said Graham Steele, director of the Corporations and Society Initiative at the Stanford Graduate School of Business. David Livingston with Eurasia Group, a risk-management firm, said the changes are especially good for oil and gas companies because of their high amount of debt. "They were sort of running on a treadmill and the entire shale enterprise was increasing its production month over month, year over year over year, in large part thanks to the continued provision of relatively low-cost capital."

Refiners start to draw down crude from storage in China

(Bloomberg; May 10) - The oil glut of 2020 may have peaked in the world's biggest crude importer. Crude inventories in China have shrunk in recent weeks after rising to record levels, according to analysts and satellite observations. Supplies have been drawn out of storage as refineries ramp up to meet rising demand from an economy emerging from lockdown. The drawdown is an early sign that rebalancing may have begun in the oil market after an epic collapse in demand, according to Morgan Stanley.

"The combination of inventories falling and strong imports implies really solid refining activity," said Geoffrey Craig, an analyst with Ursa Space Systems, which uses a kind of radar to track the inventories in floating-roof storage tanks. "You saw them (inventories) build aggressively in late February and into the end of March, and since then they've absolutely plateaued and have come off a bit," Craig said.

Refiners are drawing oil out of storage to process into gasoline and diesel as traffic once again snarls China's cities following the lockdown earlier this year to halt the spread of the coronavirus. Rush hours from Beijing to Shenzhen at the end of last month were busier than in the same period last year. Fears of large crowds are pushing commuters toward the relative isolation of cars. Independent refiners in Shandong in northeast China are operating at record rates, while state-owned giant PetroChina said it was ramping up fuel production after it fell in the first quarter.

Bad timing for Canadian oil producer's move into the Permian

(Financial Post; Canada; May 9) - The Permian Basin was the world's hottest oil play when Encana renamed itself as Ovintiv and moved its headquarters to the U.S. three months ago. The move by the Canadian company, analysts said, made sense at the time. Having American headquarters would attract a massive new shareholder base of

U.S. passive and index funds, thereby boosting the share price, while also relocating executives closer to the company's biggest focus areas in Oklahoma and Texas.

In the three months since, the relocation looks like unfortunate timing. Production from those shale oil formations has sharply declined and Ovintiv's production is set to precipitously drop as a result of the decision to shut in 65,000 barrels of oil production per day following the coronavirus-induced price crash. Total oil production in the Permian is now set to fall because of the cumulative actions by Ovintiv and its peers, marking a dramatic break from the past 12 years when the shale oil play led the world in oil production growth and almost single-handedly rearranged global oil markets.

Some analysts believe the outlook in the Permian and other shale plays is permanently impaired, casting doubt on the growth outlook for many unconventional oil players in the basin, including Ovintiv, and forcing them to restructure their operations like Canadian oil sands players did in the past decade. "It's bad luck for them," New York-based Eight Capital analyst Phil Skolnick said of Ovintiv. "Year to date, (Ovintiv stock) is down 75%," Skolnick said. "In the U.S., they've underperformed a lot of their peers."

Pandemic, market collapse pushes back gas investments

(The New York Times; May 11) - A few months ago, Israel and some Arab countries were laying the groundwork for an energy partnership with potential for economic cooperation between once-hostile neighbors. Israel started selling natural gas to Egypt, which in turn was reviving two mostly dormant liquefied natural gas export terminals, attracting badly needed foreign investment and opening a path for Israeli gas to Europe. Lebanon was preparing to drill its first offshore gas well after years of delays.

But the coronavirus pandemic has interrupted those efforts. Already low gas prices have plummeted. Struggling oil and gas companies have jettisoned projects. The damage to the gas trade goes well beyond the Middle East, hurting businesses from Australia to the U.S. Gulf Coast. The pandemic is putting the brakes on a two-decade-long global expansion for gas, which has been replacing coal for electricity and heating and even competing with oil as a transportation fuel in some developing countries.

"They (Israel and Egypt) were on the verge of a regional transformation and now they are stuck with a question mark and a cloud," said Nikos Tsafos, a gas expert at the Center for Strategic and International Studies in Washington, D.C. "People are wondering: Is development delayed or will it even happen," Tsafos said. "The coronavirus trajectory is a big unknown in both economic and financial impact and policy changes," said Leslie Palti-Guzman, president of Gas Vista, a consulting firm. "It poses unprecedented risk to LNG demand and investments."

Developer still plans decision on Texas LNG project this year

(Reuters; May 11) - U.S. liquefied natural gas developer NextDecade said May 11 it still planned to make a final investment decision in 2020 to build its proposed Rio Grande LNG export plant in Texas. NextDecade has a contract with engineering firm Bechtel to build two liquefaction trains for $7.042 billion or three trains for $9.565 billion. Each train would produce 5.87 million tonnes per year of LNG. Assuming it gives the go-ahead this year, NextDecade has said it expects the export terminal to enter service in 2023.

Several other North American LNG developers have delayed their projects as government lockdowns to stop the spread of the coronavirus cut global demand for natural gas and other forms of energy. Over the past couple of weeks, Sempra Energy delayed its decision to build its proposed Port Arthur LNG export plant in Texas until 2021. Cheniere Energy, the biggest U.S. LNG producer, signaled it may not make a FID to expand its Corpus Christi export plant in Texas until 2021.

At the start of this year, 12 companies, including Sempra and Cheniere, said they planned to make FIDs in 2020. Currently, that total is down to just a handful, including NextDecade. Analysts said they expect only one or two of those projects to actually go forward this year. In mid-2019, a dozen North American developers, including NextDecade, said they planned to make FIDs by the end of the year. But none of those projects are under construction. All those FIDs were delayed until 2020 or later.

South Korean government wants to cut back on nuclear, coal power

(Business Korea; May 11) - South Korea’s government is planning to cut the number of nuclear power plants in operation from 24 down to 17 and halve the number of coal-fired plants to 30 by 2034. Four-fifths of the coal power plants scheduled to go out of service will be turned into gas-fired generators. Some in the energy industry, however, say the plan is too optimistic and the government is giving no consideration to cost.

The draft plan also calls for more than doubling South Korea’s renewable energy capacity by 2034 to 40% of the country's installed capacity, with natural gas at 31%, coal at 14.9% and nuclear at 9.9%. However, the cost of LNG-fueled power historically is more than coal. According to Korea Electric Power, the LNG purchase cost was 115.6 won per kilowatt-hour in February this year (about 9.4 U.S. cents), while bituminous coal was 91.29 won (7.5 cents). Since then, however, LNG prices have fallen.

South Korea imports 100 percent of its LNG and, as such, more gas-fired power generation can result in higher risk of fluctuating prices on the global market. South Korean state-owned utilities currently operate 33.7 gigawatts of coal-fired generating capacity across 56 units. Some 30 of those units that reach 30 years of service by 2034 will be retired, 24 of which will be converted to run on gas.

Qatar proceeds with LNG expansion even as Australia slows down

(Oilprice.com; May 10) – Despite the global overhang in liquefied natural gas supplies, a weak demand profile and ongoing uncertainty in the world hydrocarbons market overall, Qatar believes that the experience and supportive infrastructure it has accrued in the sector since first becoming an LNG exporter in 1997 justify spending tens of billions of dollars to regain its former position as the world's number one LNG exporter.

It has announced big plans for its flagship super-giant non-associated gas reservoir, the North Dome. After many years as the world's top LNG exporter, Qatar narrowly lost the spot in January to newcomer Australia, which shipped an estimated 77.514 million tonnes of LNG on an annualized basis from the country's 10 LNG projects during 2019. Qatar's response has centered on increasing its LNG production capacity by 64% over the next seven years, with state-owned Qatar Petroleum expecting it to climb to 126 million tonnes per year by 2027 from the current 77 million tonnes.

A recent upgrade in estimates for the North Dome puts it at 1,760 trillion cubic feet of gas, 70 billion barrels of condensates and significant quantities of liquefied petroleum gas, helium and ethane (which will be used to enhance Qatar's petrochemicals sector). Qatar's expansion comes as LNG projects are being delayed in Australia. While Qatar moves ahead, Australian producers stand down. "The unparalleled price crash had prompted LNG companies to reduce capex and defer financial investment decisions on their respective projects," said Haseeb Ahmed, oil and gas analyst at GlobalData.

U.S. coal-fired power generation in 2019 fell to lowest since 1976

(U.S. Energy Information Administration; May 11) - Output from the U.S. coal-fired generating fleet dropped to 966,000 gigawatt hours (GWh) in 2019, the lowest level since 1976. The decline in last year's coal-fueled generation levels was the largest percentage decline in history (16%) and second largest in absolute terms. Although lower electricity demand in 2019 was partly responsible for less coal-fired generation, the primary driver was increased output from gas-fired plants and wind turbines.

Natural gas-fired generation reached an all-time record of nearly 1.6 million GWh in 2019, up 8% from 2018. Electricity generation from wind turbines also set a new record, surpassing 300,000 GWh, up 10% from 2018. U.S. coal-fired capacity peaked in 2011 and has been declining since then because many plants retired or switched to other fuels and few new coal-fired plants came online.

The coal fleet’s utilization rate has also decreased. The U.S. coal fleet generated as much as 67% of its capacity in 2010. The utilization rate has declined since then, and in 2019 fell to 48%. Although some areas in the Midwest and West saw fewer coal plant retirements, every region recorded substantial declines in generation in 2019. Although coal cost less than gas, for coal to be competitive its cost must be at least 30% lower to make up for the differences in efficiency between typical coal- and gas-fired plants. Coal plants must also offset higher costs for emission control equipment and operations.

Energy department would limit environmental review of LNG exports

(S&P Global Platts; May 8) - Citing efforts to improve its decision-making efficiency, the U.S. Department of Energy has proposed to limit National Environmental Policy Act reviews of LNG exports. The proposal could affect future facilities and those in the early review stages at the Federal Energy Regulatory Commission. But the impact may be blunted because 11 of the 12 major projects recently approved by FERC already have DOE's sign-off for exports to countries that lack free-trade agreements with the U.S.

The proposal would enshrine into regulation a narrow view of DOE's review obligations as environmentalists continue to push for studies of upstream and downstream greenhouse-gas impacts associated with new LNG facilities. The proposed rules would make clear that DOE’s review does not cover the impacts of gas production or the eventual use of the gas. A DOE official said the proposal aims to reduce a redundancy, as FERC already plays the lead role in environmental review of LNG export facilities.

The proposal would apply a "categorical exclusion" of NEPA reviews to LNG exports, finding that the only impacts falling under DOE purview are limited to actions "occurring at or after the point of export," such as transportation aboard marine vessels. “For DOE to now say that it has no authority to consider where exported gas will come from, and the impacts of that production, is an abrupt and unexplained reversal, as the agencies play a shell game of arguing that environmental impacts are always someone else's problem," Nathan Matthews of the Sierra Club said in an email.