Oil and Gas News Briefs
Compiled by Larry Persily
May 26, 2020

Traders expect buyers may cancel half of July's U.S. LNG cargoes

(Bloomberg; May 22) - U.S. liquefied natural gas producers face a wave of order cancellations as global buyers struggle with growing stockpiles of the fuel along with demand weakened by the coronavirus crisis. U.S. suppliers could get requests to cancel 35 to 45 cargoes for July loading, which is higher than the number of cargoes scrapped for June, traders surveyed by Bloomberg News estimated. That means over half of the average monthly shipments from the fastest-growing supplier could be scrapped in July.

"With U.K. summer demand expected to be lower than average and with limits on storage capacity, it's clear that there is very little space for any additional supplies," said Hadrien Collineau, a senior analyst at Wood Mackenzie. Cheniere Energy, the biggest U.S. producer of LNG, received requests to cancel as many as 30 cargoes in July from buyers with long-term contracts, said sources familiar with the situation. Cheniere may also cancel some of its own cargoes, which it typically sells into the spot market.

Buyers in Europe to Asia have requested to cancel July loadings from other U.S. projects, including Sempra Energy's Cameron terminal in Louisiana and Freeport LNG in Texas, according to the sources. Economics for sending U.S. gas to Asia and Europe have rapidly deteriorated. The Henry Hub benchmark in the U.S., the main price link for U.S. LNG, is now above gas prices in European hubs. "Negative profit margins for U.S. LNG exports suggest that cancellations may continue until October," said Anna Borisova, an analyst at Bloomberg. "Even the buyers that consider both liquefaction and LNG tankers as a sunk cost will make losses if they decide to export the commodity."

Japan's LNG imports in April lowest in a decade

(Reuters; May 21) - Japan's imports of liquefied natural gas fell to the lowest in a decade in April as the coronavirus outbreak began to hit demand in the world's biggest consumer of the fuel used for power generation and city gas. Japan imported 5.132 million tonnes of LNG last month, down 8.8% from a year earlier and the lowest since May 2010, data released by Japan's Ministry of Finance on May 21 showed.

The government declared a state of emergency in early April, effectively shutting down major sectors of the world's third-biggest economy. With LNG cargoes imported in April being loaded well before the country's emergency declaration, it is likely that shipments to Japan in the next few weeks will fall further as the coronavirus pandemic has hit gas demand across the world.

Buyers in Asia and Europe cancelled loadings for about 20 LNG cargoes from the United States in June, trade sources told Reuters in late April. Spot prices for LNG in Asia hit a record low of $1.85 per million Btu early in May as buyers in the region, the destination for about 75% of the world's LNG cargoes, have curtailed imports.

FERC denies rehearing of its approval for LNG project in Oregon

(The Oregonian; May 22) - Federal regulators on May 21 denied requests from the state, landowners, tribal, environmental, and fisheries groups to reconsider its March approval of the proposed Jordan Cove liquefied natural gas export terminal in Coos Bay, Oregon, and its 230-mile feeder pipeline. The state had objected to the Federal Energy Regulatory Commission's decision to approve the project before it received state permits — water quality certification, dredging permit, and a determination that the project is in line with state land use laws — none of which appear to be forthcoming.

Gov. Kate Brown has said she would prevent the company from condemning private property or clearing land until the project receives all its required state and local permits. In a news conference after FERC's May 21 meeting, Chair Neil Chatterjee explained that the developer, Pembina Pipeline, does have eminent domain authority to condemn private property for its pipeline, but no construction on the pipeline or LNG facility, including land clearing, can occur until the company has received all necessary permits.

Debate over the controversial project has been intense in Oregon since it was proposed as an LNG import facility in 2005. The plans later changed to build an LNG export terminal, to provide an outlet to overseas markets for gas from Western Canada and the U.S. Rockies. Boosters tout the $10 billion project's potential employment and property tax impacts in an area of the state that has lagged economically since the early 1980s. Opponents call it a potential environmental, public safety, and property rights disaster.

Seven U.S. LNG cargoes expected to unload in China in May

(Reuters; May 22) - Seven liquefied natural gas cargoes that loaded from the United States are expected to be delivered into China in May, the highest number of cargoes for this route since January 2018, shiptracking data from Refinitiv and Kpler showed. In April, only three U.S. LNG cargoes were shipped to China, the data showed.

Four of the cargoes for May have already discharged their load into terminals in Jiangsu and Guangdong, one is currently discharging at Tianjin, and two others are on their way to Hainan and Tianjin, Refinitiv data showed. The trade route between both countries for LNG resumed in April after stopping for more than a year from March 2019 due to a long-standing trade war in which China raised its tariffs on U.S. LNG imports to 25%.

Beijing has started granting tariff waivers to LNG importers, sources have told Reuters, adding that the tariff has dropped to zero, although a separate value-added tax of 10% still applies. China announced in February that it would grant exemptions on retaliatory duties imposed against 696 U.S. goods after both sides reached a Phase 1 trade deal that took effect Feb. 14.

Qatar says it will not cut LNG production, reaffirms expansion plans

(S&P Global Platts; May 21) - Energy Minister Saad Al-Kaabi said there was "absolutely no way" Qatar would cut its liquefied natural gas production despite reduced demand and low global gas prices. Speaking during a U.S.-Qatar Business Council webinar May 21, Kaabi said if Qatar stopped selling LNG because of cost, "that means there is something drastically wrong in the LNG market."

Global gas prices have plunged to record lows with an oversupplied market and reduced demand due in part to the coronavirus pandemic. “A whole bunch" of other producers would have to shut in their LNG production before Qatar, given its low-cost production, Kaabi said. "We are the cheapest LNG producer — from an efficiency point of view and from a cost of production point of view — in the world," he said. "If a lot of people stopped their production, we'd probably get a better price boost.”

Kaabi also reaffirmed Qatar plans to expand its LNG capacity from 77 million tonnes per year to 110 million by 2025 and 126 million by 2027. Technical bids have been received for the main contractor, but commercial bids for development partners — which had been expected in April — have been pushed back three to four months after bidders asked for a delay. Qatar will invite ExxonMobil, Chevron, and ConocoPhillips for talks to form a joint venture to develop the first phase after it appoints contractors, Kaabi said, adding that Qatar is "on schedule" to award all the contracts by the end of 2020.

U.S. crude climbs past $34, Brent recovers above $36

(Bloomberg; May 26) – U.S. crude rose above $34 a barrel in early trading May 26 following Russia’s prediction that the world supply-demand may balance as early as next month as global producers take historic amounts of crude out of the market. Russia, a key member of the OPEC+ alliance that has pledged record output cuts, expects the market to balance in June or July. Energy Minister Alexander Novak said global output curbs have so far exceeded those agreed to by the coalition in April.

Oil has surged more than 80% this month — the global Brent benchmark is now above $36 — as demand has picked up following the easing of lockdown restrictions in some countries, while cuts have started to chip away at the oversupply. The International Energy Agency sees demand eventually rebounding past pre-virus levels, even as some argue the coronavirus outbreak will fundamentally shift patterns of consumption.

“Global supply is still heading lower while demand is rising,” said Bjarne Schieldrop, chief commodities analyst at SEB, a Swedish financial group. “This all lays the ground for higher prices down the road.” Producers worldwide have slashed global production by 14 million to 15 million barrels a day so far, about 15%, Russia’s Novak said on May 25, though global supply still exceeds demand by 7 million to 12 million barrels a day, a Russian news agency reported May 25.

U.S. oil prices up 70% in May, but still just half of January’s level

(CNBC; May 25) - In the past two months, oil has hit two very different first-of-its kind milestones. In April, U.S. benchmark West Texas Intermediate plunged into negative territory for the first time on record. May, however, is shaping up to be WTI’s best month ever, going back to the contract’s inception in 1983 — an astonishing turnaround as movement on both the demand and supply side of the equation have driven up prices.

Data shows that people in the U.S. and China are starting to hit the road again, while producers around the globe have cut output at record rates in an effort to prop up prices. The WTI contract has jumped more than 70% in May and posted four straight weeks of gains, but some traders warn the near-term outlook for oil remains uncertain and that prices could head back into the $20s after settling around $33 on May 21.

Additionally, part of WTI’s blistering rally this month is due to the historic low from which it bounced. Prices are still about 50% below January’s high of $65.65 per barrel, significantly cutting into profits for energy companies, which are often saddled with debt. A number of U.S. energy companies have already filed for bankruptcy. If prices stay at depressed levels, there could be more casualties, analysts say. Still the market has shown signs of rebalancing itself, and analysts say that if demand continues to improve and producers keep wells shut-in, the worst could be over for oil prices.

IEA sticks with forecast that oil demand will rebound in 2021

(Bloomberg; May 25) – Global oil consumption hasn’t peaked, the head of the International Energy Agency warned, dismissing predictions that the coronavirus will permanently cap demand and reduce climate-changing emissions. “In the absence of strong government policies, a sustained economic recovery and low oil prices are likely to take global oil demand back to where it was, and beyond," Fatih Birol said.

The world last year consumed nearly 100 million barrels a day of oil, and some in the energy industry believe that could mark the peak for global demand. Their hypothesis is that the coronavirus outbreak will trigger changes, like widespread working from home and less overseas travel, reducing consumption permanently. "Could it be peak oil? Possibly. Possibly. I would not write that off," BP CEO Bernard Looney said. But if true, that would have huge implications as burning less oil would permanently reduce greenhouse emissions, easing the way toward the goals of the Paris climate agreement.

Birol, however, said the coronavirus will only reduce demand briefly, with consumption dipping in 2020 to an average of 91 million barrels a day, before rebounding in 2021 and beyond. "Behavioral changes in response to the pandemic are visible but not all of them are negative for oil," he said. "People are working from home more, but when they do travel, they are more likely to be in cars than public transport. … Videoconferencing will not solve our energy and climate challenges, good government policies might."

Russia cuts oil and condensate production 17% in May

(Reuters; May 20) - Russia's oil and gas condensate production fell about 17% from April to 9.42 million barrels per day May 1-19 as a global deal on reducing output took effect, two sources familiar with the data said. The deal between the Organization of Petroleum Exporting Countries, Russia and other producers, a group known as OPEC+, took effect May 1.

Gas condensate, a type of light oil not included in the OPEC+ pact, accounts for 700,000 to 800,000 barrels per day of Russia's liquids production, so output of just oil was about 8.72 million. That is getting close to Russia's OPEC+ quota of 8.5 million barrels per day of oil. Russia's oil and condensates output was at 11.35 million barrels per day in April, just above the record-high year-long average of 11.25 million in 2019.

Russia's Energy Ministry has told companies to cut production by 20% each, with no exceptions for big projects led by foreign firms. Regions with the highest oil output face the toughest burden because of the concentration of assets there. Khanty-Mansiysk, one of Russia's top producing provinces with output roughly the same as Texas, cut production by 15% to 4 million barrels per day, not the full 20%. To protect its jobs and revenues, it has asked other regions to shoulder some of its cuts.

Without new drilling, U.S. shale oil output could drop by one-third

(Bloomberg; May 24) - Oil prices have surged more than 75% in the U.S. this month. But don't expect a quick rebound in supply from shale explorers. The quick turnaround in oil markets is exposing the shale industry's Achilles' heel: Lightning-fast production declines. Shale gushers turn to trickles so quickly that explorers must constantly drill new wells to sustain output. And they haven't been doing that. Drilling touched an all-time U.S. low after COVID-19 lockdowns crushed global energy demand and prices.

It's a phenomenon that's attributable to the geology of shale. Just like a shaken bottle of champagne explodes when its cork is popped, a fracked shale-oil well erupts with an initial burst of supply. The froth is short-lived, however, unlike old-fashioned wells in conventional rocks that are characterized by steadier long-term production rates. To offset the decline curve, shale explorers used to keep drilling. And drilling. And drilling.

Shale explorers have been turning off rigs at a record pace because the oil rout has gutted cash flow needed to lease machines and pay crews. Going forward, companies may be hesitant to rev the rigs back up despite higher crude prices over fear of flooding markets and triggering another price crash. Without new drilling, oil output from U.S. shale fields probably would drop by more than one-third this year to less than 5 million barrels a day, according to ShaleProfile Analytics. Such is U.S. reliance on new drilling that 55% of shale output is from wells drilled in the past 14 months, ShaleProfile said.

Buyers of oil and gas assets look to renegotiate deals

(Reuters; May 20) - The collapse in oil prices to 21-year lows has led potential buyers of oil and gas fields to try and renegotiate deals that were agreed to at higher prices, with the first examples emerging of sellers having their hand forced. At a time when most oil companies are slashing budgets, dividends and head counts to preserve cash, sellers are facing a difficult choice between sweetening the deal or risking losing it altogether.

Premier Oil's CEO said he is seeking a cheaper price for North Sea assets it agreed to buy from BP for $625 million, and Energean is doing the same with a $700 million purchase from Edison. "The oil industry is revisiting its 'before coronavirus' bids, and we envisage announcements from other firms as they reprice or repackage previously announced deals," said Royal Bank of Canada oil and gas equity analyst Al Stanton.

Total this month decided to walk away from its purchase of Occidental's assets in Ghana, which hit a glitch over part of the firm's wider deal to take over Occidental's Africa assets. Hilcorp Energy and private-equity firm HitecVision have successfully renegotiated deals with BP and Total, respectively, during the oil price meltdown.

Hilcorp's new agreement to buy BP's Alaska assets retains the original sale price but provides for vendor financing, smaller payments in 2020 and for cash-flow sharing in the near term, BP said. The terms may lead to BP receiving less cash at the end of the day. Total on May 20 said it agreed to restructure its deal, initially set at $635 million, to sell North Sea oil fields to HitecVision to reflect “current market conditions while retaining the majority of the value of the transaction.” This included lending money to the buyer.

North Dakota shale producer asks state to limit output

(Reuters; May 20) - Continental Resources, one of the largest U.S. shale oil producers, on May 20 urged North Dakota regulators to intervene in the oil market through steps such as limiting output or restricting flaring of unwanted natural gas. Continental, the state’s largest producer, said at a hearing that operators are hurting amid low prices. The state’s oil production has fallen more than 500,000 barrels per day since prices crashed in March. Restrictions on gas flaring would have the effect of further reducing oil output, since the associated gas comes up with oil production.

The oil-price collapse has prompted producers to urge regulatory action from states to help the industry. “North Dakota can be a leader as far as action is concerned,” said Blu Hulsey, a Continental vice president. However, Dean Foreman, chief economist for the American Petroleum Institute, asked regulators to resist the urge to intervene.

The North Dakota Petroleum Council also opposes regulatory measures. “When there is one action by the government, there are three or four unanticipated actions,” said Council President Ron Ness. North Dakota is the third state to look at helping the oil industry. Texas regulators earlier this month dismissed a motion to implement output limits, while Oklahoma approved an emergency order in April that allows some producers to shut in wells without losing their leases.

BLM starts approving temporary royalty relief on federal leases

(Reuters; May 21) - The Trump administration has granted royalty relief to several drilling companies producing oil and gas on federal lands in recent weeks, according to a government database, as the industry seeks help weathering low energy prices. The move shows drillers are taking the government up on its offer to consider royalty cuts on a case-by-case basis after the Interior Department rejected industry calls for blanket relief covering all federal leases.

The U.S. Bureau of Land Management approved royalty rate cuts on at least 76 federal drilling leases in Utah in recent weeks, according to the database. The cuts in many cases lower the royalty rates companies must pay on the value of their production from the typical 12.5% to 5%. The database does not yet have information for other states.

A BLM official said the bureau was following its regulations when assessing applications for relief. “Applications for relief are reviewed by career experts at the Bureau following longstanding procedures and its laws and regulations. Any relief granted is temporary, for up to 60 days,” the official said. Global oil prices have plunged since the start of the year due to the fallout of the coronavirus pandemic, which has triggered unprecedented government stay-at-home orders that have obliterated demand for transportation fuels.

Royalties to private property owners drop along with oil prices

(Reuters; May 22) - Royalties from oil pumped on Paul Ruckman’s land allowed the South Texas retiree to build a six-bedroom, seven-bathroom vacation home. He had plenty left over, and donated some of it to Helena, Texas, an 1800s ghost town that draws hundreds to historic buildings and gunfight re-enactments. But the worst oil bust in decades has slashed the bounty that flowed to millions of rural Americans like Ruckman, who said his royalty checks have plummeted 70% since January.

Ruckman is among 12 million U.S. mineral owners who collect “mailbox money,” or payments for oil and gas extracted from their land. He declined to say how much his property drew, but residents in the heart of Texas’ Eagle Ford shale got bigger royalties than many, able to negotiate richer leases because the region came later to the boom. Royalties, which can range from 12.5% to 25% of the value of oil and gas produced, helped revitalize communities in oil patches across the United States.

John Baen, a Texas college professor who owns mineral rights in South Texas, collected as much as $100,000 a month in recent years. The payments have dwindled to $6,000 and by August, he said, “I’ll be lucky to get anything.” The average oil-land owner collects about $500 a month, according to the National Association of Royalty Owners, but that will not last. April’s price crash was so sharp that minerals holder Jubilee Royalty Holdings in Texas received a $1 check that month from ExxonMobil.

India’s oil demand down about 40% from year-ago levels

(Bloomberg; May 21) - It’s going to take months for oil demand in the world’s third-biggest market to get back to pre-virus levels as India faces its deepest recession ever in the wake of its near two-month lockdown. Once an engine of global oil-demand growth, India’s fuel consumption collapsed by as much as 70% at one stage last month as it embarked on one of the world’s most stringent nationwide quarantines.

As the lockdown eases, it’s now running at about 40% below last year’s levels and could take until the end of 2020 to get close to full recovery, according to executives at the country’s state-owned fuel retailers. The stuttering rebound in India’s oil use stands in contrast to China’s, where demand is all but back at levels last seen before Beijing imposed a lockdown to fight the coronavirus outbreak.

India consumed an average of 4.6 million barrels a day in May last year, which means demand probably stands at about 2.8 million barrels a day now, according to data compiled by Bloomberg. Gasoline demand is still about 47% below the same time last year, while diesel consumption is about 35% lower. Jet fuel was still a massive 85% weaker, the executives said. The lockdown of more than 1.3 billion people has taken a deep toll on India’s economy. Goldman Sachs is forecasting the deepest recession ever, with India’s economy shrinking by an annualized 45% in the second quarter.

Saudis put hold on tanker charters after U.S. LNG project postponed

(Reuters; May 21) - Saudi Aramco’s shipping division Bahri has put on hold plans to charter up to 12 liquefied natural gas carriers after Sempra Energy delayed its decision on an LNG export project in Texas, two sources said. Bahri issued an expression of interest last year to charter the vessels starting in 2025 in Saudi Aramco’s first foray into LNG as part of the oil giant’s plan to become a major global player in the gas market.

In May last year, Aramco signed a 20-year agreement to buy LNG from Sempra Energy’s planned Port Arthur export terminal and also agreed to take a 25% equity stake in the first phase of the multibillion-dollar Texas project. However, Sempra said this month it was delaying its decision whether to proceed with the project until 2021 following the slump in global demand for energy because of the coronavirus pandemic.

“The shipping requirement was meant for Port Arthur, so given the delay and also the current market, it makes sense to put the shipping on hold,” one of the sources said. Aramco declined to comment. The Saudi state-owned company has been developing its own gas resources as well as eyeing assets in the United States, Russia, Australia, and Africa, the company’s chief executive officer and the Saudi energy minister have said.

Argentina puts LNG export expansion plans on hold

(Argus Media; May 21) - Argentina's state-controlled YPF is postponing plans to expand liquefied natural gas exports in a global market with scant appetite for the fuel. "Very few investment ideas survive in this context that we're going through now," Guillermo Nielsen, YPF board chairman, said. "Certainly … we don't see room for that to fly."

Flush with shale gas reserves and hamstrung by domestic distribution bottlenecks, YPF had been considering installation of a larger liquefaction complex at Bahia Blanca after starting small-scale exports last year from a liquefaction barge chartered from Belgium's

Exmar under a 10-year lease. YPF has exported five LNG cargoes since mid-2019. But those expansion plans are now on hold. Argentina's 2019 gas production increased by 5% to almost 4.8 billion cubic feet per day, according to government data.

Meanwhile, Argentina will remain an LNG importer, particularly during the southern hemisphere winter when heating demand surges. But thanks to the productive Vaca Muerta shale formation, the country will continue to ship pipeline gas to Chile and Brazil, which had been cut off for years after Argentina curtailed exports in favor of domestic needs in 2004. Addressing the Institute of the Americas La Jolla Energy Conference May 19, Nielsen said, "It's easier to get to our neighbors' markets through pipelines."

Australia looks at $6 billion gas line as part of economic recovery

(Sydney Morning Herald; May 21) - A $6 billion gas pipeline connecting Western Australia to the East Coast is back on the agenda, part of a raft of energy-sector ideas as the federal government looks to gas to help boost the nation. Connecting the east and west through South Australia has long been considered and dismissed, but a new report to the government on resurrecting the national economy said it should potentially be included in an urgent three-stage plan to expand the country's pipeline network.

The National COVID-19 Coordination Commission, formed in March to reduce the economic impact of the pandemic, has looked at ways to kick-start Australia's recovery and formed a task force to investigate growing domestic manufacturing. A draft interim report focuses on promoting advanced manufacturing and creating a competitive domestic gas market through expansion and support of the industry.

Australia has large gas reserves and is the world's largest exporter of liquefied natural gas. Western Alaska long ago established a domestic gas reserve, locking in cheap prices, but East Coast consumers are in a very different situation. In the past decade, the draft said, the cost of electricity in Australia had risen almost 90% and gas nearly 50%. However, Western Australia's minister for mines and petroleum said the west-east pipeline hasn't been viable for 40 years and a recent pre-feasibility study confirmed it.

Alberta suspends environmental monitoring over health concerns

(The Canadian Press; May 21) - A wide array of environmental monitoring requirements has been suspended for Alberta's entire energy industry. The decisions, posted May 20 on the website of the Alberta Energy Regulator, are in addition to similar suspensions announced earlier for open-pit oil sands mines in the province and are in response to public health concerns over the COVID-19 pandemic.

“The Alberta Energy Regulator has received legitimate concerns and information demonstrating that the operators will not be able to meet certain monitoring requirements … while complying with the COVID-19 orders and guidelines,” said one of the two decisions. The list of suspended requirements is long.

Companies no longer have to monitor fumes released by burning or conduct programs to detect and repair leaks of methane, a potent greenhouse gas. Surface waters need no longer be tested, unless they escape to the environment — and those waters need no longer be lab tested. Soil and groundwater monitoring are gone, “with the exception of any monitoring that is necessary to protect human health and ecological receptors,” the decision said. In-situ oil sands operations will no longer have to conduct any wildlife monitoring. Reclamation and wetland monitoring are also suspended.

China plans to build up oil storage capacity, access to pipelines

(Reuters; May 21) - China said May 21 it will bolster the capacity of the country’s energy stockpiles and offer lower gas and electricity prices to key industries, as it looks to ensure energy supply and offset the impact of the coronavirus pandemic. In energy announcements on the first day of the parliament, known as the National People’s Congress, authorities also pledged to boost the country’s oil and gas distribution network and continue to support exploration for unconventional gas reserves.

The National Development and Reform Commission said in a statement it would push forward with adding to China’s crude oil reserve capacity. The coronavirus pandemic has led to a slump in demand for oil, leading to insufficient storage capacity worldwide. The country will also accelerate construction of its oil and gas pipeline network and encourage opening pipeline facilities to all eligible users, said the state planner.

China set up its long-awaited national oil and gas pipeline company in December, aiming to provide fair access and boost investment in oil and gas output. The Ministry of Finance said in its 2020 budget report that it will continue to support exploration of unconventional gas, including shale gas and coal-bed methane, as China looks to lower its reliance on imports. The ministry will also lower gas prices to agriculture-related sectors affected by coronavirus, such as fertilizer businesses that use gas as feedstock.