Oil and Gas News Briefs
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May 28, 2020

Analysts say 250 U.S. shale oil bankruptcies possible by next year

(Financial Post; Canada; May 25) – The biggest independent shale oil groups in the U.S. reported a record combined loss of $26 billion in the first quarter as the sector braces itself for a wave of bankruptcies over the next two years. The collapse in crude demand brought about by the coronavirus pandemic forced more than $38 billion in write-offs among top producers, according to analysis by Rystad Energy, sending net losses tumbling well below the yearly average of $2.9 billion over the past six years.

U.S. energy groups have been caught in the storm as lockdowns aimed at stemming the spread of COVID-19 slashed energy demand and crashed the oil market. The deep impairments reported by the 39 publicly listed U.S. shale oil producers analyzed by Rystad — which excluded majors and gas-focused firms — underline the pressure on the industry from the pandemic. “The bottom line is there is going to be a wave of bankruptcies and restructurings,” said Regina Mayor, global head of energy at KPMG.

Analysts predict 250 companies could go bust before the end of next year unless oil prices rise fast enough to start generating cash for producers with punishing debt loads. “I don’t think $30 oil saves a lot of those producers who are sitting in the emergency room on a gurney waiting on a heart transplant,” said Buddy Clark, a lawyer at Haynes & Boone in Houston. “There are more bankruptcies to come.” Already 17 smaller U.S. oil and gas producers with total debt of around $14 billion have filed Chapter 11 bankruptcy this year, according to data from Haynes & Boone.

IEA worries oil industry investment cutbacks could hurt future supply

(Reuters; May 27) - Global energy investment is expected to plunge by around 20%, or $400 billion, in 2020, its biggest fall on record, because of the coronavirus outbreak, the International Energy Agency said May 27. The Paris-based IEA said this could have serious repercussions for energy security and the transition to clean energy as the global economy recovers from the pandemic.

Governments are easing restrictions put in place to curb the spread of the virus after the confinement of around 3 billion people brought the global economy to a near standstill. At the start of the year, global energy investment was on track for a 2% increase in 2020, its biggest growth in six years, the IEA said. A total of $1.8 trillion was invested in the sector in 2019. “The historic plunge in global energy investment is deeply troubling for many reasons,” said Fatih Birol, the IEA’s executive director.

"It means lost jobs and economic opportunities today, as well as lost energy supply that we might well need tomorrow once the economy recovers," he said, adding that it also could hurt the move toward cleaner energies. Global energy companies have cut investments and shelved projects to shore up their finances due to the crisis. The IEA said higher debts after the crisis will pose lasting risks to investments. The IEA said if investment in oil stays at 2020 levels, it would reduce global supply in 2025 by almost 9 million barrels a day, a clear risk of tighter markets if demand returns to pre-crisis levels.

U.S. oil production may not ever return to its record high

(The Wall Street Journal; May 24) - American shale drillers helped turn the U.S. into the world's top oil producer, topping 13 million barrels a day earlier this year. It likely will be years — if ever — before they reach such heights again. That's a growing view among oil and gas executives and experts, who say the coronavirus pandemic is going to thin the shale ranks and leave survivors smaller and less able to pursue growth at any cost.

Shale companies led a renaissance of U.S. oil production, helping to more than double output over the past decade and moving the country past Saudi Arabia and Russia. But even before the coronavirus sapped global demand for crude, causing shale companies to shut off wells en masse to avoid losing money, many were struggling to turn a profit and investors had soured on the sector, restricting companies' access to capital.

While oil prices have rebounded in recent days, U.S. output is still poised to fall because companies are not drilling enough wells to make up for output declines from existing wells. Without new wells, many companies' output would decline by 30% to 50% in just a year, research firm Wood Mackenzie said. Companies have sharply reduced their drilling budgets for the year, with the top 15 by market capitalization slashing spending by an average of 48%, a Wall Street Journal review of company disclosures found.

"They were in trouble in a $50 oil environment," said Lance Taylor, president and CEO of private oil producer Steward Energy II. "Thirty dollars doesn't fix anything." Since mid-March, operators have idled almost two-thirds of the U.S. rigs, bringing the nation's oil-rig count to the lowest since July 2009. That all but ensures U.S. production is going to fall, even if companies decide to restart existing wells sooner than expected.

Analyst sees halt to North America LNG project sanctions this decade

(Financial Times; London; May 26) - A worldwide slump in fuel prices is putting billions of dollars of liquefied natural gas investments on hold. The growth in the LNG trade has tied together once-disparate energy markets, as natural gas is condensed for shipment overseas. But prices have collapsed in Asia and Europe, removing much of the imperative for the once-booming marketplace. Global demand will decline this year for the first time in more than a decade as the pandemic drags on industrial output and power generation, the International Energy Agency estimates.

Long-term forecasts are in tatters and the looming gas glut is clouding prospects for an ambitious queue of projects to export shale gas from the U.S. and Canada. “We don’t see any additional North American export capacity getting sanctioned in the next decade,” said Ross Wyeno, an LNG analyst at S&P Global Platts. Exporting LNG requires massive investments in liquefaction plants and ports; the financing usually hinges on long-term sales contracts.

Projects designed to ship out more than 900 million tonnes a year — far more than double last year’s global demand — await approval from developers with North America accounting for two-thirds of this capacity, according to the International Gas Union. Developers had been preparing to profit from a period of scarcity expected in two or three years. But lower demand on top of new capacity already added last year will prolong the glut into the mid- to late-2020s — and possibly later as the low-cost supplier Qatar forges ahead with its huge expansion push, the International Gas Union said.

Opponents file in court against FERC approval of Oregon LNG project

(The Associated Press; May 28) - A group of landowners on May 23 filed a petition to take the Federal Energy Regulatory Commission to court over a controversial $10 billion proposal to build a gas liquefaction plant in Coos Bay, Oregon, and accompanying pipeline. FERC approved the Jordan Cove liquefied natural gas export terminal and 229-mile pipeline in March, and on May 21 denied opponents’ request for a rehearing.

In addition to the landowners’ action, a lawsuit was filed May 27 in the U.S. Court of Appeals for the D.C. Circuit that challenges FERC’s approval of the project under the National Environmental Policy Act and Natural Gas Act, according to a statement from the Western Environmental Law Center, one of the groups that filed the suit. “Because of the project’s glaring climate, clean water, and other ecological impacts, we want to knock out that flawed federal approval,” the Western Environmental Law Center, said.

Last week pipeline opponents — including many landowners whose properties the project would cross — challenged FERC’s decision by filing a joint petition for review in the U.S. Court of Appeals for the District of Columbia. Landowner Stacey McLaughlin of Myrtle Creek, one of the petitioners in the lawsuit, said the developer, Calgary-based Pembina Pipeline, has not shown there’s a market for the gas, so it doesn’t make sense that the company is pushing forward, possibly taking land by eminent domain.

[U.S. LNG export cargoes this month down a third from January]

(Reuters; May 26) – U.S. liquefied natural gas exports are down by more than a third since governments started imposing lockdowns to stop the spread of the coronavirus, while global gas prices have plunged as lockdowns squeeze energy demand. Gas is now more expensive in the United States than in Europe for the first time in a decade.

Buyers in Asia and Europe have already canceled over 20 U.S. LNG cargoes for June and July, with more cancellations anticipated. Gas flows to U.S. LNG plants fell from a record 9.5 billion cubic feet per day in late March to a six-month low of 5.6 bcf a day this week, according to Refinitiv. That level still tops last year's average of 5 bcf a day.

"U.S. LNG capacity utilization has begun a turndown in response to market forces exacerbated by COVID-19," said Terrell Benke, executive director at IHS Markit. The number of vessels carrying U.S. LNG peaked at 74 in January, according to federal data. But Refinitiv data said the number of vessels carrying U.S. LNG fell to 62 in April and was on track to drop to an eight-month low of 50 in May. Analysts said buyers would keep canceling cargoes for the rest of the summer since U.S. gas futures were trading higher than the equivalent European benchmark through September.

[Qatar agrees to discuss lower LNG pricing with India]

(India Times; May 26) - Qatar has agreed to discuss India's demand to renegotiate its long-term LNG supply contract, signed in 2015, reversing the stand it took just four months ago as crumbling spot prices and collapsing demand during the pandemic has put global suppliers under tremendous pressure. "Qatar was earlier cold to the idea but has now agreed to discuss. A meeting is being arranged and should happen over the next week or two," said a person familiar with the matter.

Executives at importer Petronet LNG are likely to meet via videoconference with Qatar gas executives soon to discuss how prices can be cut for the supply deal that expires in 2028, at 8.5 million tonnes per year. Petronet LNG is also planning to ask ExxonMobil to cut prices on its 20-year-contract for 2.5 million tonnes a year of LNG from its Australia project, the source said. "It's a buyer's market. Globally, suppliers are today far more worried about placing their volumes than about prices," said an industry executive.

The decision to discuss India's demand is a change for Qatar, whose energy minister had rejected a January suggestion from India's petroleum and natural gas minister to reopen the contract. India had demanded delinking its cost of LNG from crude oil rates, as the spot rate in the gas market had fallen sharply to about $4 per million Btu, while its oil-linked prices were around $8 to $9 per million Btu when oil was selling at about $60 a barrel. Since then oil prices have fallen to $35 per barrel, pricing LNG to India at about $5, but LNG spot prices too have crumbled, falling to a record low of $1.30 last week.

Louisiana LNG developer wants to raise $4 billion

(The Advocate; Baton Rouge, Louisiana; May 26) - New Orleans-based Pointe LNG has hired a financial adviser to raise $4 billion from investors for its proposed liquefied natural gas export terminal in Plaquemines Parish, Louisiana. Pointe LNG hired Whitehall & Co., a New York City-based investment firm, to secure financing and LNG buyers for the terminal's output, which is planned for a 600-acre site on the east bank of the Mississippi River, at 6 million tonnes annual capacity.

Point LNG is looking to raise about $56 million of development capital from investors by the third quarter this year. In 2019, Pointe LNG said it expected to begin construction in early 2021 and begin operations by 2025. It now looks to make a final investment decision by 2022 and open by 2026. However, it is still in the pre-filing phase with the Federal Energy Regulatory Commission, a first step in the environmental review. The proposed project has been around for years. Parallax Energy in 2015 acquired Louisiana LNG Energy, later renamed Pointe LNG, from its New Orleans founders.

Asian buyers pick up unsold crude, known as 'distressed cargoes'

(Bloomberg; May 27) - Asian buyers are snapping up "distressed cargoes" of oil from Africa to the Middle East in another sign that demand is coming back in the world's biggest crude-importing region. Indian, Chinese, and South Korean refiners have been purchasing the so-called distressed shipments, including crude that's set to load in about a month or less, according to traders and refinery executives. Some of the oil was already being stored at sea near Singapore, while other cargoes were purchased just days before they were scheduled to load with crude in June, the sources said.

Indian Oil Corp., the country's biggest refiner, has been perhaps the most aggressive buyer of prompt cargoes, releasing a slew of tenders for African, Middle Eastern, and U.S. crude. While the company is ramping up fuel output to meet rising domestic consumption, other Asian processors are seeking to make up for steep delivery cuts by OPEC+ producers such as Saudi Arabia and Iraq, the traders and refiners said.

The return of demand is occurring as lockdown restrictions ease up around the region and as consumption of some oil products recovers. It's helping to chip away at the overhang of unsold crude that was built up during the unprecedented supply-demand shock earlier in the year and may provide more support to the rally in oil prices that's been underway since late April.

U.S. natural gas production down 9% from record high

(S&P Global Platts; May 22) – U.S. natural gas production is hovering near a 16-month low in late May as historically weak commodity prices prompt many operators to slow drilling activity, especially at oil-rich plays, and curtail their output at marginal wells. On May 20, U.S. natural gas output tumbled to 85.5 billion cubic feet per day, down more than 9% from its record high of 94.3 bcf a day in November, according to modeled data from S&P Global Platts Analytics.

The recent and precipitous drop in U.S. production, which has fallen about 6.5 bcf a day over the past five weeks, tracks similarly steep declines in crude oil prices and active oil-directed drilling rigs. While the Permian Basin accounts from nearly half of the decline in active rigs, other oil-weighted plays have also seen steep reductions, including the Bakken, Denver-Julesburg, Eagle Ford, and the SCOOP/STACK, which together account for 155 rigs lost since late January. The slowdown in oil has resulted in a corresponding drop in associated gas production.

By comparison, the largest dry gas plays, where oil prices are less of an issue — including the Marcellus, Utica, and Haynesville shales — have lost a total of just 25 rigs as many operators hold the line on drilling amid recent strength in forward gas prices. Recent rig cuts and well curtailments in West Texas have seen the oil-focused Permian Basin lead the decline in U.S. gas production. Over the past two weeks U.S. associated output has averaged 10.6 bcf a day, down 1.2 bcf from the March average.

Marcellus gas play overtakes Permian as fracking capital of U.S.

(San Antonio Express-News; May 25) - The 2020 oil crash has claimed another victim in Texas and continues to roil the nation's oil patches. The Permian Basin, the oil-rich shale formation that spans West Texas and eastern New Mexico, is no longer the fracking capital of the U.S. That title, new data shows, belongs to a formation known as the Marcellus Shale across Pennsylvania and West Virginia — where the hot commodity is natural gas, not oil, with gas demand holding up better than oil.

May 21 brought more bad news from the Permian and oil fields across the nation: The rig count, an indicator of U.S. oil and gas production, continued to plummet for an 11th-straight week. Of the 450 available hydraulic-fracturing fleets in the U.S. and Canada, only 70 are deployed in the field, Houston investment advisory firm Tudor, Pickering, Holt said. Holt Managing Director George O'Leary referred to the count as "putrid."

The cutbacks have left the Marcellus with 31% of a diminishing number of active fracking crews, according to a report by Tudor, Pickering, Holt. The Permian is second with 30%, followed by the Eagle Ford Shale in South Texas and the Haynesville Shale in East Texas and Louisiana with 14% each.

Eastern Mediterranean has lots of gas but lots of problems

(S&P Global Platts; May 22) - Despite sitting on tens of trillions of cubic feet of gas, the prospects for wide-scale development of the East Mediterranean remain uncertain with drilling on hold, a setback for Lebanon's fledgling exploration program and stubborn geopolitical challenges. Add to that the likelihood that within a decade — or sooner — European consumers will be far more exacting when it comes to the carbon footprint of gas, it may eventually turn out that some of the region's gas will remain in the ground.

Recent disappointments have done nothing to improve the near-term outlook either, and existing projects are struggling with the impact of the coronavirus outbreak on gas demand and company spending. Demand for gas from the giant Tamar and Leviathan producing fields offshore Israel is expected to fall by up to 9% over the next 18 months, while Egypt has not exported an LNG cargo since March. This year was also expected to mark the resumption of drilling offshore Cyprus, with dozens of wells planned, but drilling in the area by Total, Eni, and ExxonMobil postponed until at least next year.

Meanwhile, a first well offshore Lebanon came up dry, triggering fears that any offshore gas development there could be a non-starter. The only ongoing drilling activity of note is by Turkey's state-owned TPAO in Cyprus' Block 6, which has been denounced by the international community, further threatening the fragile geopolitical balance in the region. Analysts remain skeptical of major new developments in the region given the many challenges it still faces and the recent collapse in global natural gas prices.

Alberta official says health restrictions will limit pipeline protests

(The Canadian Press; May 25) - Alberta's energy minister said it's a good time to build a pipeline because public health restrictions limit protests against the projects. Sonya Savage made the comment May 21 on a podcast hosted by the Canadian Association of Oilwell Drilling Contractors. She was asked about progress of the Trans Mountain oil pipeline expansion project under construction between Edmonton and Vancouver.

"Now is a great time to be building a pipeline because you can't have protests of more than 15 people," Savage said. "Let's get it built." While the interviewer laughed, Savage did not. Unprompted, Savage went on to suggest that the economic turmoil caused by the pandemic favors pipeline construction. "People are not going to have tolerance and patience for protests that get in the way of people working," she said on the podcast, which was posted on the association's website.

"People need jobs and those types of ideological protests that get in the way are not going to be tolerated by ordinary Canadians." Savage's spokesman acknowledged in an email the statements on the podcast. "We respect the right to lawful protests," said Kavi Bal. "I would note that the limitations to public gatherings … have benefited no one

— including project proponents and any opposition groups." Both Alberta and B.C. have increased the limit to 50 people for outdoor gatherings.

Lack of access hinders oil tanker seaworthiness inspections

(Reuters; May 26) - Ship assessors are resorting to virtual inspections of oil tankers to keep vessels afloat, as the coronavirus pandemic makes physical visits to check for seaworthiness tougher and a slump in fuel demand increases the need to use the ships as storage. Tankers require rigorous inspections twice a year to reduce the risk of oil spills or mechanical failure with polluting cargoes onboard.

With an estimated 160 million barrels of surplus oil stored on board dozens of tankers because on-land storage is full, the situation is pressing. If restrictions on access to ships stay in place toward the final quarter of the year, tankers may be unable to store oil or sail until repairs can be carried out. This could drive up freight rates for shipping and storage, as fewer vessels will be seaworthy. Shipping sources say many tankers are already overdue for inspections to determine if the ship is fit to carry oil cargoes.

As a solution, remote surveys are taking place via live streaming as the ship's captain and other crew members walk around a vessel to specific areas for checks, drawing on previous inspection reports that highlighted issues. The effectiveness of virtual inspections only buys time, especially as many vessels in the global fleet are aging. Remote surveys can also take longer and require weeks of work to process versus a few days for an on-site inspection.

Shutdown stops work on pipeline land acquisition in Louisiana

(The New York Times; May 26) - When a developer wants to build an oil or gas pipeline across Louisiana, it doesn't rely on court orders or bureaucratic letters on corporate masthead. It doesn't demand compliance from property owners it must inconvenience. Instead it sends a kind, pious young man to knock on each landowner's front door, develop a relationship and make a deal. Until two months ago, James Howell was right-of-way manager for an independent land company contracted by energy companies.

When COVID-19 hit, Howell was working on 10 pipelines running between two and 300 miles long. Howell pulled titles, filed permits and assessed property values. But his most important duty was to earn the trust of strangers. He preferred to do it face to face. ''I want to build a personal relationship,'' he said, ''so they don't see a big bad oil company but just another guy. I'm trying to find a way to get in the door and relate to them.'' He has never been greeted by a shotgun, though he has heard of a colleague who was.

Like a bartender, Howell has found that most people are flattered to find someone to listen to their troubles. ‘‘People want to talk. If you’re honest about what you need, you’ll do well.’’ He has encountered protesters, particularly for an oil line through the cypress swamps of the Atchafalaya Basin, one of the nation’s richest ecological habitats, and under the bayou that provides drinking water to the United Houma Nation.

But COVID-19 has achieved what the protesters could not: In early March, Howell’s pipeline projects were suspended. The rest of the month Howell and his document specialist — his wife, Whitney — sat alone in their office in downtown Baton Rouge, ‘‘buttoning everything up.’’ They wanted to make sure that when the shutdown ended, however many months or years from now, they would be able to resume work.