Oil and Gas News Briefs
Compiled by Larry Persily
May 5, 2020

Producers face hard decisions on which wells to shut in

(Bloomberg; May 5) - Turns out shutting down an oil well is easy. In many cases it can be done with a few taps on an iPhone. Figuring out which wells to shut and for how long is the hard part. In the wake of a killer pandemic and the worst crude price crash in history, the U.S. has become ground zero for a vast new experiment in the industry. Producers are shutting wells at a tremendous rate with oil prices sitting at historic lows.

On May 1, ExxonMobil said it will cut the number of rigs in the Permian Basin by 75%, to just 15 by year-end. Chevron said it's down to just five rigs there, a 71% drop. "The industry's never faced shut-ins like we're facing right now," said Clay Williams, CEO for National Oilwell Varco, the biggest U.S. maker of oil field gear. "We are on the precipice of forced well shut-ins totaling 15 million to 20 million barrels of oil per day (worldwide)."

Companies are deciding everything from which wells should be shut down first to which should be closed for good, what the costs are, how easy it will be to restart them, and what fields may be too porous to handle a shutdown if they ease operations across hundreds, or even thousands, of wells. Operations in the Gulf of Mexico, meanwhile, will likely be the last to shut in. The challenge is the miles of flow lines carrying oil along the seabed to onshore facilities. At such depths the lines could clog if shut off for too long.

"It's a bad buffet of options," said Ian Nieboer, a managing director at the industry research firm RS Energy Group, which has been fielding questions over the past few weeks from explorers on the economics of closing wells. "There's no golden answer."

Texas regulator gives up on effort to impose production limits

(Bloomberg; May 4) - A lame-duck Texas regulator who proposed mandatory cutbacks in oil production said the effort is "dead" a day before the biggest U.S. crude-producing state was set to vote on the measure. Texas Railroad Commissioner Ryan Sitton said in an interview on Bloomberg TV that the three-member agency was not prepared to vote at its May 5 meeting on curtailing oil output in a process known as "pro-rationing."

His comments likely mark the end of a month-and-a-half-long saga that divided the shale industry over whether Texas state regulators should adopt OPEC-style production caps amid a historic collapse in crude prices. "At this point we still are not ready to act, and so it's too late … there is no proposal to make," Sitton, one of three Republicans on the commission, said May 4. "I think that pro-ration is now dead."

Sitton, who lost the primary for his own seat earlier this year, had been the only member of the Texas Railroad Commission — the state's chief energy regulator — to support production caps. Chairman Wayne Christian recently stated his opposition to cuts, and Commissioner Christi Craddick voiced numerous concerns at the agency's last meeting. While Sutton and smaller producers had supported state-mandated limits on production to curb an oversupply and boost prices, most of the oil industry opposed the effort.

Low prices hurt oil industry's plans to sell off assets to raise cash

(The Wall Street Journal; May 4) - Before COVID-19 and the oil-price rout, most of the world's biggest energy companies had planned to sell billions of dollars of their assets to help pay down debt and maintain dividends. Now, those divestment programs are in jeopardy. Since the start of the year, BP, ExxonMobil, and Occidental Petroleum have had major asset sales restructured or delayed indefinitely as coronavirus-lockdown restrictions decimated energy demand and oil prices fell by two-thirds.

Many leadership teams in the industry had previously seen asset sales as a way to strengthen finances but their options are narrowing as buyers focus on conserving cash and banks rein in deal financing as the possibility of a global recession becomes more likely. "There's massive uncertainty on what the world's going to look like post this virus and what it means for oil and gas prices, so buyers will be hesitant to commit capital," said Biraj Borkhataria, co-head of European energy research at RBC Capital Markets.

The slide in oil prices is threatening the sector's most extensive divestment program — Exxon's plan to raise $25 billion from asset sales by 2025. The company has indefinitely postponed the sale of $2 billion in North Sea oil and gas assets. It remains motivated to sell some of its assets but will have to find interested buyers to do so, said CEO Darren Woods on May 1. "It's going to be harder to do that in an environment like this, where people are strapped of cash, so I would expect to see that divestment program slow."

BP said last week it still plans to sell $15 billion of assets by mid-2021. The company had to renegotiate the financial terms of its deal to sell its Alaska business to privately held Hilcorp. Similarly, BP will likely need to consider agreeing to new terms if it wants to complete its planned $625 million sale of North Sea oil and gas fields to Premier Oil following the sharp selloff in Premier's stock price, according to sources.

Australian producer says it’s on lookout for assets majors might sell

(Reuters; May 1) - Woodside Petroleum is keeping a close eye out for assets that might come up for grabs from the supermajors amid the oil market rout, seeing itself in a position to bid, CEO Peter Coleman said May 1. The head of Australia’s top independent gas producer said, however, deals were unlikely until the third or fourth quarter of this year. “We are watching closely the supermajors,” Coleman told reporters on a conference call the day after Woodside’s annual meeting.

He said Woodside was watching how the supermajors manage their debt and dividends and how they value their assets through impairments amid the oil market collapse driven by oversupply and the steep fall in fuel demand because of lockdowns for the novel coronavirus. “They are all insights as to what we think the appetite may be in the industry toward sales at an asset level,” he said. Woodside is partners with ExxonMobil, Shell, BP, and Chevron at LNG projects in Australia and Canada.

‘A lot of despair, a lot of fear’ for Colorado oil industry workers

(Denver Post; May 3) - Like many who make a living in Colorado’s oil fields, life has slowed to a crawl for Chris Golding, a mobile welder who makes repairs to rigs and pipelines throughout the oil-rich Denver-Julesburg Basin northeast of Denver. His productivity has plummeted from a breakneck pace of up to 100 hours of work weekly to perhaps 20 to 30 hours a week. “I’ve been about trying to seek small jobs to stay afloat,” said Golding, who last week took his metalwork talents to a restaurant renovation.

The state’s petroleum industry employs about 90,000 people, directly and indirectly, generates $13.5 billion in economic activity, and provides $1 billion in taxes to state and local governments, according to an analysis from the University of Colorado Boulder. Or it did. Jobs in the oil patch are disappearing amid the double whammy of the coronavirus pandemic and a global oil-price war.

For Justin Mapes, a laid-off quality control manager for a bankrupt oil and gas firm, there may be no return to the industry after nine years of making a living. He lost his job in January. “It’s scary — I never thought I’d see it this bad in my lifetime,” he said. He is pivoting away from the oil fields and trying his hand in the screenprinting business. The 37-year-old father of three bought an existing company in Greeley and is trying to make it his own. “There’s a lot of despair, a lot of fear,” Mapes said. “You get laid off in the oil and gas industry, and you could always find another job. That’s not the case anymore.”

Industry cutbacks hit Kansas oil counties dependent on tax dollars

(Kansas News Service; May 2) - The coronavirus shutdown killed oil prices, and that could be a killer for local governments in Kansas long addicted to the tax money that's been lost as companies stop pumping crude. In some parts of Kansas, counties depend on revenue tied to oil production to cover as much as 25% of local property taxes. With no rebound in prices in a world suddenly awash in a glut of oil, those counties find themselves scrambling to raise taxes elsewhere, slash their budgets, or both.

Ellis Country in western Kansas produces more oil than anywhere else in the state. The industry is a key component of its economy, providing income for producers and landowners, while also propping up a wide range of businesses that support the industry and those who work in it. "We have banks out here that will struggle. We have retailers, like myself, that will struggle," said Dustin Roths, Ellis County Commissioner and owner of a jewelry store. "Our best customers sometimes are in these industries."

Revenue from oil is about 5% of the county's annual budget. While Roths said the county is doing everything it can to make sure it doesn't have to lay off people, the shortfall will at least mean a reduction in some services. "We're not going to be able to make the investments in road infrastructure that we would have liked to."

Sempra postpones decision on LNG project in Port Arthur, Texas

(Reuters; May 4) - Sempra Energy said on May 4 it has delayed the decision to build its Port Arthur liquefied natural gas export plant in Texas from this year to next as the coronavirus shutdown cuts global demand for the fuel. Sempra said earlier this year that it expected to make a final investment decision on Port Arthur in the third quarter. About six weeks ago, however, the company warned that decision could be stalled.

Energy firms around the world have pushed back decisions on LNG terminals and other infrastructure projects as global demand for all forms of energy has collapsed because of the coronavirus outbreak. Sempra, meanwhile, did not mention its planned Costa Azul LNG export plant in Baja California in Mexico in its earnings release. In March, Sempra said it planned to make a final investment decision to build Costa Azul in the second quarter of 2020.

Sempra has said it has nonbinding 20-year agreements with units of France's Total as well as Japan's Mitsui and Tokyo Gas to buy about 0.8 million tonnes per year of LNG each from Costa Azul. The first phase is planned for one liquefaction train with capacity for 2.4 million tonnes of LNG per year. At Port Arthur, Sempra has said it is in talks with units of Saudi Arabian Oil Co. to buy 5 million tonnes per year and invest 25% equity, and with Polish Oil & Gas Co. to buy 2 million tonnes per year. The initial phase of Port Arthur would include two liquefaction trains at about 11 million tonnes per year.

Australian producer delays decision on $11 billion gas project

(Reuters; April 30) - Woodside Petroleum's final investment decision on the $11 billion Scarborough gas project will require stable oil prices and credit ratings, the company said April 30. Woodside already in March deferred an investment decision on the project off the coast of Western Australia until 2021 to help rein in spending to weather the oil-price crash. It will be "investment ready" by the third quarter of 2020 but Woodside, which co-owns the project with BHP Group, does not expect to make a decision until oil prices improve, CEO Peter Coleman told shareholders in a virtual annual meeting.

The project includes an expansion of Woodside's 8-year-old Pluto LNG plant, which Scarborough will feed from its estimated 11 trillion cubic feet of gas resources. A final investment decision will require "a period of sustained pricing stability and then also a trajectory through pricing growth. What's limiting us at this point in time is, of course, (credit) ratings agencies," Coleman said. "We just definitely don't want to get to a point where we're worried about whether we're investment grade or not."

Ratings agencies Moody's and S&P have slashed their oil-price forecasts and put oil and gas producers' ratings on negative watch, and Coleman said he does not expect the agencies to revise their pricing outlooks until next year. Woodside's current planning assumes that oil prices, which plunged to 20-year lows last week, will remain weak into next year, although it expects a gradual recovery starting later this year.

Insurgency adds to risks for LNG developments in Mozambique

(Bloomberg; May 2) - At a restaurant overlooking the bay of Maputo in December, Pedro Couto, one of Mozambique's top energy lawyers, was having a drink with a friend when he made the prediction: Finally, his country was going to realize its ambition to become a $60 billion force in the natural gas market. "We were all excited about 2020," Couto, 48, said last week. "Everything did look like it was going to be a great year."

Construction was beginning in earnest after mammoth discoveries off the northern coast a decade ago. A new airport and roads had started to frame projects that would remake one of the world's poorest countries. Production wells were on the brink of being drilled along with early development of onshore facilities to super-cool gas into liquid for export. But the rigs have been sent away and the sites are quiet, and it's not just because of the coronavirus pandemic. LNG project plans by companies including Total and ExxonMobil are threatened on three fronts — each devastating in its own right.

Oil's plunge has cut industry spending worldwide, the virus has spread through Total's construction camp, and attacks by an Islamic State-linked insurgency have surged. Exxon, which has the biggest project costing as much as $30 billion, has indefinitely delayed a final investment decision. Italy's Eni said it's pushing ahead with its smaller floating project for 2022 start-up. Total hasn't changed its target to start exports in 2024.

Even when the pandemic passes and prices recover, Mozambique's government will need to quell violence that's killed hundreds of people in Cabo Delgado province. While the developers will ultimately emerge from the downturn, "we're tending to overlook that the insurgency has been the Sword of Damocles over the projects," said Florival Mucave, president of the Mozambican oil and gas chamber of commerce.

Russian pipe-laying ship positioned to finish gas line to Europe

(Reuters; May 3) - A special pipe-laying vessel that could be used by Russia to finish construction of the Nord Stream 2 gas pipeline to Germany has arrived in the Baltic Sea, a Reuters witness said May 3. The arrival of the Academic Cherskiy suggests that the $10 billion to $12 billion pipeline project remains a priority for Moscow despite U.S. sanctions on Russia. The Nord Stream 2 pipeline was designed by Moscow to increase gas supplies via the Baltic Sea to Germany, Russia's biggest energy customer.

Russia's energy ministry said in December that the pipeline was expected to be launched before the end of 2020. Footage taken by Reuters showed the Academic Cherskiy idle in a bay near the Kaliningrad region, which is separated from Russia's mainland and is sandwiched between Poland and Lithuania. The Academic Cherskiy, which Russian gas company Gazprom bought in 2016, was in the Russian Pacific port of Nakhodka in December when the U.S. imposed sanctions on Nord Stream 2.

The U.S. says the pipeline would make the European continent too reliant for energy on Russia, leaving it in Moscow's political grip. Washington has touted exports of U.S. liquefied natural gas to provide Europe with alternatives to pipeline gas from Russia. As a result of the sanctions, the Swiss-Dutch company Allseas, which was laying the pipe, suspended work. Russia then said it would use a different vessel for the project, as a 100-mile stretch near the Danish island of Bornholm has not yet been completed.

Hereditary, elected chiefs disagree on gas pipeline pact in B.C.

(The Canadian Press; May 1) - Elected chiefs of a First Nation in British Columbia that are split over a natural gas pipeline through their territory said they will not sign a deal on rights and title, a day after hereditary chiefs backed the agreement. The elected chiefs of the Wet'suwet'en Nations said they don't support the proposed memorandum of understanding on rights and title with the federal and British Columbia governments.

The hereditary chiefs' decision to sign the memorandum was announced April 30 in a joint statement they issued with Ottawa and the province. The hereditary chiefs oppose construction of the pipeline through their northwestern B.C. territories, while a majority of elected band councils support the Coastal GasLink project to feed the LNG Canada terminal under construction in Kitimat, British Columbia. Despite supporting the rights agreement, the hereditary chiefs have not rescinded their opposition to the pipeline.

Opposition to the 415-mile gas pipeline set off blockades that shut down large parts of Canada's economy in February. Details of the memorandum haven't been released, but Wet'suwet'en hereditary chiefs, the federal and provincial governments agree it commits them to implementing the rights and title of the First Nation. But elected chiefs said the memorandum consultation process "lacked any semblance of credibility." They are asking for withdrawal of the hereditary chiefs' "premature" announcement.

Turkish company builds up fleet of floating power plants

(Bloomberg; May 1) - As economic and health-safety lockdowns complicate efforts to bring electricity to every corner of the planet, one company is putting generation units on ships that can sit offshore and plug into local grids at short notice. Karpowership is busy marketing floating power plants across the developing world, where governments are seeking extra voltage to power hospitals and other facilities to keep the lights on during the coronavirus pandemic.

Vessels can hook into an onshore grid quickly, sidestepping the rules and construction issues of a traditional power plant. And these ships come with their own fuel — liquefied natural gas and fuel oil — tapping into fuel markets that are currently oversupplied. "We can deploy them in less than 30 days," said Zeynep Harezi, chief commercial officer of Istanbul-based Karpowership, where the ships are designed. The onboard generators can produce between 36 megawatts to 470 megawatts of electricity.

Karpowership has the world's biggest fleet of the vessels. Starting from the first ship for Iraq, which took three years to build a decade ago, it now operates 25 such ships in 11 countries from Mozambique to Cuba to Indonesia. It converts existing dry bulk vessels, buys engines in bulk and builds the floating power plants "one after another, almost like a production line," Harezi said. At 8 to 10 cents a kilowatt hour, the company provides the ship, a floating storage and regasification unit for LNG and, if required, the fuel itself.

Air travel economics may mean the end of 747s

(Bloomberg opinion; April 30) - Fly from New York to London and you may travel back in time. British Airways flies more Boeing 747-400s than any other passenger airline, roughly one in five of those still in operation. Every so often, a Trans-Atlantic trip involves trying to catch a few hours of sleep on one of these old workhorses. That may never happen again. Folks will still make the trip across the pond; it just isn't likely to be on one of those old 747s again. The loss of the big planes matters to the oil market.

Jet fuel demand has declined more in percentage terms than any other oil product, according to the International Energy Agency's assessment of the impact of COVID-19, released April 30. Even with jet fuel suddenly much cheaper, the thirstiest planes get grounded first, and those tend to be the oldest. Of the 141 747-400s tracked by Ascend by consultancy Cirium, 94% are not now flying (including all of British Airways'), versus two-thirds for the global jet fleet as a whole. The average age of 747s is 22 about years.

As time ticks by, the economics of hanging onto older planes diminishes as they require maintenance and potentially hit inspection milestones. Robert Mann, a former airline executive turned consultant, pointed out that retiring older aircraft could also help burnish airlines' environmental credentials. He also raises more existential questions. Will people be happy to go back to sitting cheek-by-jowl in jumbos? The economics and sheer uncertainty mean a generational cull of aircraft is coming. The passing of 747s hauling people across the Atlantic will be a milestone in aviation history.