Oil and Gas News Briefs
Compiled by Larry Persily
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Oil prices head up as supply and demand move toward closing gap

(The Wall Street Journal; May 6) - Oil producers are throttling back their output, drivers are returning to the road and U.S. oil prices are roughly double of a week ago, raising hopes — but not confidence — that the fuel glut won't overwhelm the world's capacity to store oil. Since reaching a record in mid-March, U.S. output has declined by more than a million barrels a day and producers are promising to push it even lower by shutting in old wells, waiting to bring online new wells and dialing down flows where they can.

Meanwhile, demand for transportation fuels has begun to climb back from what was at least a 30-year low in early April. Executives at the largest U.S. refiner, Marathon, said the worst of the historic drop in fuel demand caused by the coronavirus pandemic looks to be in the rearview mirror. "I never thought $22 oil would be exciting," said Kaes Van't Hof, finance chief at oil producer Diamondback Energy. That was early May 5, before the main U.S. oil price pushed higher to close at $24.56, up 99% from a week earlier.

Goldman Sachs analysts call the climb a "relief rally" and said it would take much longer for U.S. crude to double again. They don't expect it to average more than $30 a barrel this quarter or next but forecast it will exceed $50 by the second half of 2021. Given the supply glut motorists and airlines must burn through, producers will have to keep cutting production to buoy prices and prevent storage facilities from filling, Goldman Sachs and other analysts said. "The week of April 6 is really what we're calling kind of the bottom of the market," said Brian Partee, who heads refinery fuel sales for Marathon Petroleum.

Debt load helps explain why U.S. producers were slow to cut back

(Energywire; May 6) - Last week's round of earnings reports shows that oil companies are finally starting to pull back on their production in response to the coronavirus pandemic. Big and small companies alike announced that they're shutting down rigs and closing down wells. ExxonMobil said it plans to mothball 75% of its rigs in the Permian Basin. But the response came more than a month after oil prices started to fall, leaving many observers asking: Why didn't the industry hit the brakes sooner?

The answer varies from company to company, but analysts say there are multiple factors at play, including an operator's debt level and a lag between the severe demand drop and the time it takes to ramp down supply. While it can cost millions of dollars to drill a new oil well — tens of millions for offshore wells — it doesn't cost much to keep an existing well running. That's one reason so many companies were slow to respond to the virus outbreak, said Mark Berg, a vice president at Pioneer Natural Resources.

"If you can clear your operating cost and continue to produce profitably, that's the analysis that producers go through," Berg said. Another reason some small- and medium-sized companies kept pumping for weeks is their debt levels — Moody's estimated in March that the industry had $86 billion in loans due in the next four years. Such loans typically come with provisions like predetermined debt-to-earnings ratios that force companies to keep drilling. Also, companies often get loans based on output from their proven reserves. Reducing their production can lower the amount of their reserves, which can lower their so-called borrowing base.

Saudi Arabia offers discounts to win market share

(Bloomberg; May 6) - The truce that settled over oil markets this month as some of the world’s largest producers began cutting output belies the raging competition among exporters seeking to preserve their share of a smaller market. Saudi Arabia, the world’s top exporter, appears to be winning the fight for sales as it slashes prices for its crude while producers struggle to retain customers as the coronavirus destroys oil demand.

For evidence of where the Saudis have been winning, look no further than last month’s crude exports. Saudi Arabia was the only one of OPEC’s top four producers to boost sales to India in April, according to Bloomberg tanker tracking. Saudi shipments to China doubled, and its exports to the U.S. reached 1 million barrels a day, the most since August 2018. “The Saudis are doing very well,” said Ahmed Mehdi, a research associate at the Oxford Institute for Energy Studies, referring to the battle for buyers.

State oil producer Saudi Aramco slashed its official selling prices for April crude sales to some of the lowest levels in decades, undercutting rivals. For cargoes loading for Asia in May, Aramco cut pricing even further, and it’s expected to widen discounts to that region for June. That helped Aramco to place its crude even amid a surge in supply.

Saudi Aramco generally exports to America from the Persian Gulf, but April’s flows included the first observed cargo from one of the kingdom’s Red Sea ports to the U.S. West Coast in at least three years. Another cargo embarked on the same route in early May. The Saudis aim to defend sales from competing crude, said Gavin Thompson, vice chairman for energy in the Asia Pacific region at consultant Wood Mackenzie.

Oil tankers fill floating parking lot in Southern California

(CBS News; May 6) - Oil tankers have turned the Southern California waters in front of the nation's largest port complex into a floating parking lot. "We have filled all of the storage tanks at (California) refineries," said oil industry analyst Professor Iraj Ershaghi. The traffic jam was simply because "there's no more space" to store the oil.” Since stay-at-home orders led to a sharp decrease in driving, demand for gasoline has plummeted.

On May 1, there were at least 21 tankers sitting idle in front of Los Angeles/Long Beach. "There's generally a population of three to five tankers out there waiting to come in," said Capt. Kip Louttit, who monitors port traffic for the Marine Exchange of Southern California. "We keep them from bumping into each other by watching them on our screens. Just like there are traffic lanes on the road, there are traffic lanes in the ocean.”

U.S. Coast Guard Capt. Rebecca Orr, who is set to take command of the sector that includes the port, is already busy monitoring the ships for "anything unusual." Using radar and voice communications, the Coast Guard is able to keep track of where the tankers are supposed to be. Patrol boats and helicopters are an added layer of security.

Industry bust likely to add to cleanup cost of orphaned wells

(Energywire; May 5) - In the wake of the COVID-19 pandemic that's shaken the global oil sector by driving down prices toward bankruptcy levels, oil states fighting to restart their economies may face another crisis: orphaned wells. The industry bust could add thousands of wells to already strapped efforts to reclaim old infrastructure in the West and Appalachia. Some states have cleanup programs and funding streams dating from previous orphan well crises. Others don't. Most are expecting their numbers to go up.

"There is no way to put a hard number on it, but we know it's coming," said Patrick Courreges, communications director for the Louisiana Department of Natural Resources. "We are fully expecting to see another big wave." Louisiana plugs about 180 orphaned wells a year, paid for from a tax on industry. The state's current count, however, is 4,000. There are more than 3 million abandoned wells pockmarking the country today, from Louisiana's coast to backcountry Kentucky to Wyoming's desert.

Orphan wells have no ties to a solvent company or responsible party — their cleanup falls to the state or federal government. Costs range from the thousands to millions per well. In Ohio, an orphan sits in the center of a freeway being built outside Cleveland and must be plugged before construction. Outside of Pittsburgh, a man smelled gas and dug up his backyard, finding an 1,800-foot-deep well from the 1900s, covered with a plastic bucket. These holes were punched during boom times and left behind when wells dried up or companies went bust. Some are fairly harmless; others leak toxins or natural gas.

New Mexico could be left with cleanup costs if producers go bankrupt

(Santa Fe New Mexican; May 3) - The COVID-19 disaster and a catastrophic fall in oil prices could leave New Mexico on the hook for billions of dollars in environmental cleanup costs if oil and gas companies go bankrupt, the state's top land official said. The crash in the oil and gas market is fueling long-standing concern from State Land Commissioner Stephanie Garcia Richard and environmental groups that bonding requirements for oil and gas companies are nowhere near enough.

"We never dreamed that we would be in this position," she said. "We could be left holding the financial bag for cleanup." Before drilling a well, companies must set aside a bond to cover the cost of cleanup if they go under. It costs about $29,000 to plug and remediate the average well, according to the state Energy, Minerals and Natural Resources Department. Yet the current state bonding requirement for companies to pump oil is $25,000 per operator, regardless how many wells that company operates.

Additional funding — "blanket bonding" — required by the state ranges from $50,000 for up to 10 wells to $250,000 for more than 100 wells. Adrienne Sandoval, who runs the oil division at the Energy, Minerals and Natural Resources Department, said state officials don't know whether bonding and an oil reclamation fund are enough to cover what may unfold this year. Garcia Richard has argued in the past that the bonding is insufficient to deal with cleanup costs. But the gap between the cost and the amount available to the state could widen dramatically if an unprecedented number of companies go bankrupt.

Economic collapse could cost Texas more than 1 million jobs

(Bloomberg; May 6) - In all his years in the Texas oil patch, billionaire Russell Gordy has never seen a bust like this. The nightmarish collapse in crude prices that has accompanied the coronavirus pandemic is sinking fortunes across Texas, the nation's second-largest economy. And not even Gordy, 69, an oilman since 1973, can see a clear way out. "Right now I'm paying people to take my oil. … I don't see an end to this."

The Texas oil-and-gas sector is sinking fast, heightening the pain for the broader U.S. economy. The state's sheer size — it accounts for 9% of total U.S. economic output — means the shock here will reverberate on a national level. Texas is more than just oil. With a population of 29 million it has developed substantial health care, finance and technology industries, but its core is energy. Drilling all but ground to a halt last month as the global coronavirus pandemic and the Saudi Arabia-Russia price war in March contributed to a glut so big the U.S. has almost run out of storage for excess crude.

Texas may lose 1.3 million jobs by June, according to estimates by Moody's Analytics. "The coronavirus crisis is putting an end to the U.S. shale oil revolution," said Thomas

Costerg, senior U.S. economist at Pictet Wealth Management in Geneva. Gordy, who has diversified his operations into real estate and agriculture, said the pain has spread throughout his empire. “I’m in the cattle business and it’s horrible. There’s nowhere to sell my cattle, the meatpacking plants are closed. I’m in retail in Houston and it’s going to be years — if ever — if that comes back.”

Louisiana industry survey says 50% of members could go bankrupt

(The Advocate; Baton Rouge, LA; May 5) - About half the members of the Louisiana Oil and Gas Association expect to file for bankruptcy as the industry's struggles accelerate faster than anticipated at low oil prices. Nearly a quarter of oil and gas employees have already been laid off, members said in a recent survey. There are about 33,900 oil and gas workers across the state, where more than 33,600 wells operate. About four in five exploration and production companies have already started shutting in oil wells.

The trade organization has about 460 exploration and production members, and also oil field services businesses across the state. "The crushing weight of the crisis is taking hold much quicker than expected," said Gifford Briggs, president of the Louisiana Oil and Gas Association. About 77% of operators have begun to shut in wells, despite some being approved for federal help through the federal Paycheck Protection Program and Economic Injury Disaster Loan program.

Only about 25% of the members received economic-injury disaster loans in the amounts they expected. Of those that received funds, 72% said it was not enough money to avoid layoffs and 46% said it wasn't enough to keep the business alive. The trade group has been pushing for the state to drop its oil severance tax rate for at least one year, which stands at 12.5%, more than three times higher than competitors such as Texas.

North Dakota creates task force to help oil industry

(Grand Forks Herald; ND; May 6) - North Dakota state government has launched a task force to revitalize its oil industry, which has seen a “staggering” plunge in production from idled wells that once produced 450,000 barrels daily. That freefall in production resulted from shutting in 6,800 wells, or more than a third of the 16,000 active wells the state had before a collapse in oil prices and demand slammed the oil patch.

Earlier this year, before the coronavirus pandemic struck, North Dakota was producing an average of 1.5 million barrels of oil daily, which now has been slashed by almost a third. “These are staggering numbers impacting North Dakota production,” Lynn Helms, director of the North Dakota Department of Mineral Resources, said May 6 in announcing the state’s formation of the multiagency Bakken Restart Task Force.

The task force is considering a wide range of actions to help the beleaguered industry, including regulatory relief, tax relief and low-cost financing. North Dakota's stake in the financial health of the petroleum sector is enormous. Ron Ness, president of the North Dakota Petroleum Council, which represents the industry, said the economic impacts of the severe slowdown will produce ripple effects far beyond the state budget, including loss of jobs and business activity to a degree he called "almost mind-boggling."

Nigeria in deep fiscal trouble at low oil prices

(Bloomberg; May 6) - Africa's most populous nation is getting almost nothing from its massive oil wealth. While headline Brent-crude futures have rallied sharply in the past few weeks — rising above $30 a barrel May 5 — a glut of Nigerian oil is fetching about $10 less than that. It means revenue for the continent's biggest economy has cratered. "It's now dawned on everyone across the country how severe this threat is," said Andrew Nevin, a partner and chief economist for Nigeria at PricewaterhouseCoopers.

"There is a possibility that at least for three to five years, there's going to be no revenue flowing to the government from oil," Nevin said April 30. Nigeria's plight is playing out across the world as Venezuela, Iraq, and other petro-states are grappling with the same dark future — where their commodity is worth much less than it was, and where private companies often still want their cut. Global efforts to fight the spread of virus have driven oil prices so low that they no longer cover production costs for many companies in Nigeria — let alone provide the government with crucial cash.

Nevin said Nigeria gets very little when prices are around $20. The commodity normally contributes about half of the country's revenue. The rout has been so deep that having resisted borrowing from the International Monetary Fund for many years, Nigeria has secured its first-ever loan — $3.4 billion — to help plug some of the holes in its 2020 spending plan. Another concern is that any economic distress could lead to a return of social unrest that dogged the country as recently as 2016. The Niger River Delta, at the heart of Nigeria's oil production, has suffered bouts of militancy and violence for years.

Russia did what it said it couldn't: It cut Arctic oil production

(The New York Times; May 4) - For most of the post-Soviet period, energy officials in Russia have resisted OPEC entreaties to participate in production cuts to help prop up oil prices, arguing it would be impossible because of the country's cold climate. This week, confronted by a surplus of oil and no place to put it, Russian executives unveiled plans to reduce production by a fifth by shutting down wells, many of them in the Arctic.

Not eager to share the burden of shutdowns with OPEC, the Russian government long maintained that curtailing production was not as simple a matter for them as it was for the desert kingdoms. Supposedly, wells in permafrost could not be shut down, lest they froze, requiring them to be drilled again when they were reopened. Oil analysts have called the claim one of the oil industry's biggest geopolitical bluffs, one which Russian officials carried off with a straight face for decades to deflect OPEC demands for help.

"It's mostly nonsense," Thomas Reed, a Houston-based energy investor and former executive of an oil company with experience in Siberia, said of the cold weather claim. That view now has been substantiated by the hurried Russian shutdown. Siberian and far northern wells, it turns out, turn off about as easily as any others. "The level of compliance with the deal will be 100%," Russian Energy Minister Aleksandr Novak said in an interview with the Russian news agency Interfax on April 29. Moscow committed to cutting about 2 million barrels per day, about 20% of its pre-crisis output.

Texas shale drillers say they need oil in $30s to restart production

(Bloomberg; May 5) - A pair of prominent U.S. shale producers said all they need is oil around $30 a barrel to consider bringing back curtailed crude output and fracking new wells. One of them, Diamondback Energy, is curbing production this month by 10% to 15% and sending home most of its fracking crews through June. The Midland, Texas-based company expects to end this year with more than 150 wells that were drilled but never fracked as U.S. producers avoid pumping oil into a vastly oversupplied market.

Parsley Energy has curtailed a quarter of its output and temporarily abandoned its five-rig program. Benchmark U.S. crude futures were back up around $25 a barrel as of May 5, a little more than two weeks after a precipitous fall into negative territory. Still, they remain more than 60% below the 2020 peak of $65 in early January. If prices continue to recover, Diamondback CEO Travis Stice said the company's first priority would be restarting production that was choked back. After that, the company would consider bringing back frack crews to tap wells that were drilled but never completed.

"There's a lot of factors that weigh into that, but you've got to have prices in the high $20s or low $30s before we kind of signal going back to work in an aggressive or even in a non-aggressive way," Stice said May 5. Parsley said it would need a week or two to turn its wells back on to their previous level of output. The company cited roughly $30 as the base case for running four to five drilling rigs, according to its quarterly earnings presentation. The Austin, Texas-based driller is waiting for the volatility of oil supply and demand to die down, executives told analysts and investors May 5.

Investment bank scales back forecast of oil-demand loss

(S&P Global Platts; May 5) - Investment bank UBS became one of the first oil market watchers to scale back its forecasts for oil demand destruction from the COVID-19 pandemic on May 5 amid growing signs that global activity has turned a corner as lockdowns start to ease. Reducing its estimate of the impact on oil demand through June 30 by 5 million barrels per day, down to a global demand loss of 15 million barrels a day, UBS said it sees clear signs of strengthening recovery as travel restrictions ease.

Global crude prices rose on May 5 as more countries start to ease economic and social lockdowns while traffic levels, a key proxy for oil demand, continues to recover. "Many market participants believe there is light at the end of the tunnel. We too think we are moving in the right direction," UBS analyst Giovanni Staunovo said in a note. "We still expect oil demand to contract strongly this quarter, though not as much as we did before." Preliminary data indicates U.S. oil demand has started to improve and global road traffic and congestion data are also showing signs of rising activity.

Traffic in major U.S. cities began to recover in mid-April and overall driving, a key indicator of gasoline demand, averaged about 85% of mid-January levels by April 24, according to S&P Global Analytics. In Germany, Europe's biggest oil market, traffic congestion stood at 20% below 2019 levels at peak times May 5. But global air travel remains considerably less than last year, and commercial flights have only begun to recover marginally. UBS has forecast Brent to recover to $43 per barrel by end-2020.

CEO of largest oil trader expects permanent demand loss

(Reuters; May 5) - Oil markets are at the beginning of a fragile recovery as coronavirus lockdowns ease, though long-term peak demand may be permanently eroded, Vitol's CEO told Reuters. Russell Hardy, head of the world's biggest oil trader, said global oil demand sank by 26 million to 27 million barrels per day in April and predicts a year-on-year drop of more than 8 million barrels per day. "The market is going to flirt with optimism and pessimism for the next two or three weeks," Hardy said.

"The mist is becoming a little clearer. It's a bit easier to see the future, so the market is more able to make an educated guess about what that supply/demand balance looks like. We haven't had a monster rally. It's just a statement that the worst is over," he said. More than 4 billion people are under some form of lockdown to prevent the spread of the coronavirus. However, over the past week, some U.S. states, India, and several major European countries have begun easing restrictions.

Hardy also said permanent demand loss looks likely, as humanity gets used to different behavior patterns. "Some commentators are saying: Isn't it nice that we can cycle up and down our roads; isn't it nice that there's no NOx (nitrogen oxides) ... there are some elements that have been good for health — perhaps not mental health — but physical health," he said. "Taking that all into account, do we go back to living as we did before?"

Developer of proposed Louisiana LNG project headed into insolvency

(The Advocate; Baton Rouge, LA; May 5) - The future of a proposed liquefied natural gas export terminal near Lake Charles, Louisiana, appears bleak after the parent company appointed administrators to deal with a potential insolvency. In Australia, where LNG Ltd. is headquartered, administration is akin to Chapter 11 bankruptcy reorganization in the U.S. It remains unclear whether the company will restructure and continue to pursue its project. The administrators did not respond for comment.

Global demand for LNG has slowed while oil prices have dropped significantly in recent months. LNG Ltd. said it was unable to secure customer contracts, especially after the coronavirus pandemic began several months ago. PricewaterhouseCoopers was appointed as the voluntary administrators in late April. LNG Ltd.'s CEO and several other executives resigned from their posts shortly before that. PwC is reviewing the company's finances and will be contacting its creditors soon.

LNG Ltd. has proposed building Magnolia LNG at an estimated $4.4 billion for 8.8 million tonnes annual capacity. The company was slated to be taken private this year by Singapore-based LNG9 in a $75 million deal, but investors withdrew after an initial loan fell through. LNG Ltd. was on track to run out of money in May and had only $8.3 million left in cash as of December. The project has its final environmental impact statement from federal regulators, but that did not solve its cash and customer problems.

Oregon LNG developer says FERC not required to judge market need

(S&P Global Platts; May 6) - Whether a saturated global market can support the Jordan Cove LNG project is beyond the bounds of Federal Energy Regulatory Commission review, project developers said in a lengthy filing backing FERC's recent sign-off on the project. Jordan Cove and the Pacific Connector Gas Pipeline on May 5 submitted 237 pages to rebut multiple requests by opponents for rehearing of FERC's March 19 authorization of the LNG terminal in Coos Bay, Oregon, and related 229-mile pipeline.

In addition to facing difficult market conditions for securing long-term offtake contracts, the first U.S. West Coast LNG export facility approved by FERC also faces strong legal opposition. A broad coalition of environmental groups, landowners, and tribes, as well as others including Oregon state agencies, are among those that have asked FERC to reconsider its approval, in a step preceding appeals to court.

The coalition April 20 contended FERC's finding of market support for the pipeline is arbitrary, given the commission's refusal to look behind the agreement with the project's single buyer, an affiliate of the pipeline company. In reviewing the pipeline, the groups argued, FERC should have addressed the lack of evidence that the export terminal has market support. In its May 5 answer, lawyers for Jordan Cove said FERC does not investigate nor it is required under the law to find evidence of market support for LNG exports. Therefore, the challenges over market need for the terminal are "erroneous."

China unlikely to meet target for building more gas storage capacity

(S&P Global Platts; May 5) – China's move to speed up construction of natural gas storage facilities is expected to boost the country's storage capacity over the next two to three years, but it's is unlikely to meet 2020 targets amid incomplete market reforms and the coronavirus pandemic, trading sources said. City gas suppliers have shown little interest in building peak-shaving gas storage capacity, as the government has not provided enough market liberalization incentives to promote the construction, they said.

"Storage construction is a very capital-intensive business. Without a liberalized market and a summer/winter spread to incentivize private investment, no money-driven stockholder will invest in storage," said a trading house source. "Private investment will also require third-party access to pipelines. Otherwise, you will not be able to use your storage," the source said. Gas infrastructure operators were required to open their facilities to all users in June 2019, but no substantial progress has been made so far because of delays in setting up China's infrastructure operator, market sources said.

Besides, storage construction is a lengthy process, which involves site selection, safety analysis, project approval, environmental assessment, financing, construction, and more, said a second source in eastern Shandong province. "Storage capacity is unlikely to be built up in a short time," the source said, adding that several smaller LNG storage facilities for peak-demand needs are still waiting for approval. "New storage capacities are expected to come online within two to three years," the source added.

China's LNG demand growth rate could fall to just 1.8% this year

(Nikkei Asian Review; May 6) - Asian demand for liquefied natural gas, which had been driving growth in the global market, is slowing after the coronavirus brought industrial activity in the region to a standstill. The super-chilled natural gas, which emits less greenhouse gas than coal, has become increasingly popular over the past decade in China and elsewhere for use in the industrial and electricity sectors. Global LNG demand reached 354.7 million tonnes in 2019, up 13% from the year before.

However, the pandemic has reduced demand among major Asian importers, due to the halt in factory operations and sluggish demand for electricity. China, the world's second-largest importer, took in 15.2 million tonnes of LNG between January and March, a 2% increase compared with the previous year. By contrast, the country saw double-digit growth in 2019. According to energy research company Rystad Energy and government data, China's overall demand growth rate for LNG could drop to a mere 1.8% in 2020.

China was leading growth in the LNG market until 2019, with national oil companies and oil majors rushing to invest in multibillion-dollar LNG projects. However, since the COVID-19 outbreak, industrial demand has weakened, with Chinese state-owned oil and gas companies declaring force majeure in February, claiming that they would not take multiple LNG cargoes. The world's third-largest importer of the gas, South Korea, is projected to take in 40.5 million tonnes in 2020, a 0.5% drop from the previous year.